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Official Report of Debates (Hansard)

Thursday 2 September 1993

Journal des débats (Hansard)

Jeudi 2 septembre 1993



**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Ontario Casino Corporation Act, 1993

Loi de 1993 sur la Société
des casinos de l'Ontario

Chair: Paul R. Johnson
Clerk: Tonia Grannum

Président : Paul R. Johnson
Greffière : Tonia Grannum



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 2 September 1993

The committee met at 1003 in the Sheraton Fallsview Hotel, Niagara Falls.

ONTARIO CASINO CORPORATION ACT, 1993

LOI DE 1993 SUR LA SOCIÉTÉ
DES CASINOS DE L'ONTARIO

Consideration of Bill 8, An Act to provide for the control of casinos through the establishment of the Ontario Casino Corporation and to provide for certain other matters related to casinos / Loi prévoyant la réglementation des casinos par la création de la Société des casinos de l'Ontario et traitant de certaines autres questions relatives aux casinos.

The Chair (Mr Paul R. Johnson): This is the final day for hearings for this committee concerning Bill 8, An Act to provide for the control of casinos through the establishment of the Ontario Casino Corporation and to provide for certain other matters related to casinos.

Before we start, I recognize Margaret Harrington.

Ms Margaret H. Harrington (Niagara Falls): First of all, I'd like to welcome the committee to Niagara Falls. As you can see, we have a wonderful place here, and there's much more to see. In fact, we were to be in the Hennepin room; that's named after Father Hennepin, who was the first non-native to actually even see the falls, and he was probably right at this spot here. I invite you to go outside and have a look around when you can.

To the people here, I'm very pleased to have the finance and economics committee of the Legislature here, and I hope you will get to know them during the day. Unfortunately, I have to leave briefly at 11:15 to be with the Minister of Housing here in Niagara Falls for an announcement, but I certainly want to hear everyone possible. I have a copy of a press release I would like to have available for anyone who wishes one, and I'll pass them around the table.

CITY OF NIAGARA FALLS

The Chair: Our first presenter this morning is Mayor Wayne Thomson, city of Niagara Falls. Good morning, Mayor. You have 30 minutes to make your presentation and field questions from the members.

Mr Wayne Thomson: Thank you very much. First of all, let me welcome you to Niagara Falls. Thank you for the opportunity to come here and listen to a very important issue for this community.

It is a privilege to have been granted an opportunity to present the position of the city of Niagara Falls regarding Bill 8 and the establishment of casinos in the province of Ontario. I am speaking to you today on

behalf of 12 aldermen who, along with myself, form the council of the city of Niagara Falls.

The city has a population in excess of 75,000 and an annual tourist population of over 12 million. City council has expressed publicly on many occasions its support for a casino, culminating with the passing of the resolution which is attached to this submission. The council of the city of Niagara Falls supports the establishment of a casino in the city because it will stimulate development of a viable new industry, improve economic development and generate revenue, create jobs and promote tourism development.

Further, Niagara Falls believes that its family image and its position as a tourist destination, together with an existing infrastructure, puts the city in a superior position to enhance the provincial economy.

I would like to commend the province on the foresight to introduce legislation which will allow casinos to establish. Casinos and recreational gaming have been gaining in popularity in recent times as a leisure activity. The move to recognize this trend represents an opportunity to recognize substantial economic benefits. According to the recently released Coopers and Lybrand report, the possibility exists to establish seven casinos in major market areas, including Niagara Falls.

Bill 8 as drafted does not go far enough to recognize the various opportunities which exist in the province for casinos. As drafted, Bill 8 provides only for the establishment of a casino in Windsor; thus, the proposed legislation is shortsighted. The language of part II of Bill 8 must be expanded to allow for the development of further casinos throughout the province.

Without such a change, an amendment to the provincial act would be required each time a new facility is planned. I am not suggesting an open-door approach but believe the communities identified in the Coopers and Lybrand report to the Ontario casino project should be recognized in the legislation before final reading. The Coopers and Lybrand study is a careful examination of the viability of casinos in Ontario which supports the opportunity to establish a number of casinos in the province.

The economic recovery of Ontario rests with the financial wellbeing of the local municipalities, which contribute to the general health of the province. Overall, the Coopers and Lybrand report indicates tax revenues to the province in excess of \$850 million. Locally, the development of a casino in Niagara Falls will stimulate the economy at a time when we have been crippled by the recent recession and a slow recovery which depends

on an even smaller industrial base.

The last few years have been financially troubling for business, both those directly tied to tourism and those indirectly linked. As such, the city of Niagara Falls is experiencing property tax arrears totalling approximately \$48 million—that figure is about four times greater than it was in 1989—of which \$24 million is from the tourist industry alone. This places a hardship on the city, which must bear the costs of carrying the debt. The addition of a casino to Niagara Falls would create a draw which would in turn fill the hotel rooms and restaurants and attractions and thus increase the economic viability of business.

Businesses which are financially solvent would be better able to pay taxes and reduce municipal debt loads. The overall health of the community would be improved to a point where an economically stable market would allow consumer confidence to flourish. The good health of the local and regional municipalities will enhance the general wellbeing of the province.

During the last few years, more than 1,300 traditional manufacturing jobs have been lost locally. The development of a casino in Niagara Falls will help significantly in providing new work opportunities for the unemployed. The creation of jobs locally is documented as having a positive effect on jobs generated elsewhere in the province.

1010

Consider for a moment the findings of the economic impact study for Niagara Falls prepared by the economic planning group in 1988: For every direct job created in the tourism industry in Niagara Falls, another one and a half jobs are created in the province by industries indirectly related to tourism. With these kinds of statistics, Niagara Falls will have a positive impact on the economy of the province because of the number of jobs created. It is the responsibility of society to make sure there is full employment. Consider too the creation of jobs in the construction trades and their suppliers should such a facility develop locally. This will prove important over the short term for the regional economy. I am sure that you will hear more from other speakers on this topic.

As a city which attracts more than 12 million tourists per year, the potential benefits to the province are enormous. In order to be the most effective player, the city needs to be in the position to offer additional attractions which will increase the length of stay of its visitors. The tourism economic study identified the need for demand-generator attractions; these are facilities which attract visitors because of the total overall experience provided. A casino in Niagara Falls would be such a facility.

By creating demand-generator facilities, it is possible to capture additional tourist spending because the visitor would stay longer. By increasing the length of stay for

the average visitor, it is possible to influence spending patterns which will necessitate additional amenities and attractions. The spinoff benefit of development of such facilities in a city which already has a reputation as a tourist destination will have unmatched multiplier effects on tourism development in the region and province.

Efforts to increase the length of stay for tourists has been an ongoing goal of the Niagara Falls Visitor and Convention Bureau and the city for many years. Further, new tourist dollars could be attracted in the off-season if a casino facility were developed in Niagara Falls. Niagara Falls already receives 24% of its visitation from October to March each year. There is significant potential to expand this off-season market further, as the social characteristics change to include an increasing number of retired people and those who are not tied to the school vacation period.

Niagara Falls has a reputation of being a family-oriented destination. The city council is most interested in having this image continue. A casino facility will attract two kinds of people. Some will be dedicated casino gamer types, but many visitors to the casino will be there for the recreational aspect of the game of chance. In this regard, it is not unlike the Monte Carlo night activities which already occur every weekend in this municipality.

Successful marketing could build on the integrity of the community. The establishment of a casino therefore would complement the already existing tourist-serving facilities. Management of casinos through the Ontario Casino Corp, as outlined in Bill 8, provides for public regulation of the operation and a comprehensive approach to supervising and directing casino activities across the province. This type of control would be supported to ensure that the family atmosphere present in Niagara Falls prevails.

The city of Niagara Falls has an existing infrastructure available to accommodate casino development. The city handles large volumes of tourists regularly and has available public and private parking lots, transportation facilities and accommodations to serve the visitor to a casino facility. The city is served by the regional Niagara police services and has the Niagara Parks Commission police force operating within the municipal boundaries; not every community can boast of such local protection. The workforce in this city is oriented to serving the tourist and catering to his or her needs. Therefore, the establishment of a casino in Niagara Falls could be quickly accommodated.

In summary, the city supports the introduction of casinos in the province, as provided by Bill 8. However, the city believes the provisions are too narrow and that the bill should provide the opportunity for additional casinos to establish without further amendment once the bill has received final reading. The opportunity to

establish further casinos in Ontario will help with the economic recovery of the province and the health of local municipalities.

Niagara Falls has much to offer in the provincial recovery, as one and a half jobs are created throughout the province for every one job created in the city's tourism industry. The city has been hard hit because of the loss of jobs in the traditional manufacturing industry. The opportunity to create year-round employment and extend tourism to the off-season will have an important spinoff effect for the community.

Niagara Falls is a family destination; therefore, the bill must provide sufficient control to regulate the operation of casinos to provincial standards in order to maintain the image of the city and the province. Niagara Falls is well poised with an adequate infrastructure to support a casino operation. Recreational gaming has been adopted in one form or another across the country. Niagara Falls is ready to start generating the substantial economic benefits which will be recognized through job creation and tourism development.

Niagara Falls is significantly different from Windsor and should be considered for casino gaming now in order to truly test the tourist market and stimulate the provincial economy.

Thank you very much, Mr Chairman and members, for the opportunity to submit the brief, and we'd welcome any questions with respect to gaming in the city.

Mr Carman McClelland (Brampton North): Thank you for the welcome and hospitality of your city. I just want to touch base on one brief point and ask for your comment. You referred twice to the loss of manufacturing jobs. I'm not taking away for one moment your comments with respect to the opportunity for job creation and the potential you see; I'd just be interested in your comment in terms of the manufacturing jobs vis-à-vis the replacement factor. It seems to me, and correct me if I'm wrong, that the jobs we're talking about wouldn't necessarily replace those 1,300 jobs that are lost. There may in fact be some overlap and some of those individuals would be picked up, but am I right or wrong in presuming that the vast majority of those 1,300 people who have lost those particular jobs would really not be at issue in terms of job re-creation for them? It would be a different set of individuals you would be drawing on for the most part. I'd appreciate your comment on that.

Mr Thomson: That very well could be, and I think the figure of 1,300 which was mentioned in the brief is probably very light. Mr Chairman and members, I'm here today representing the municipality, and if you read the statistics in the paper about the unemployment situation in the Niagara region—we like to be first in a lot of things but that's one area where we don't like to be first, and we've been consistently first in the prov-

ince at having the highest unemployment record.

Because we're in tourism and because we have 12 million visitors who come and stay a couple of hours, look at the falls and pass on, we have an opportunity to fill these rooms and to fill the attractions and the restaurants. It's going to create jobs.

That is not to say that we are not actively pursuing the industrial aspect. Industry located here 100 years ago because of the inexpensive hydro power. You're probably all aware of the problems with Ontario Hydro, and we have lost substantial industry in the last two or three years because of the hydro cost; these are high power users and they just could not continue. Granted, somebody who is working on a furnace in an abrasives industry may not end up working in the tourist industry, but there is always that possibility. I think people have to be flexible, have to accept what opportunities are available.

1020

I keep hearing the argument that the jobs that are going to be created are not the same jobs and the same-paying jobs for the head of the family. There are substantial well-paying jobs in the tourist industry. Certainly there is going to be a spinoff to the electricians and the plumbers and the construction people and all of the management people and supervisory and marketing people generated as a result of tourism, a spinoff that is going to take up the slack of these 1,300 jobs, probably far in excess of that, in my opinion. We're working on both. We're just trying to survive.

When we talk about \$48 million in arrears in taxes, that is not insignificant. The debt load we are allowed according to the provincial standards is about \$32 million for this municipality. I've been around since 1969 in local politics, and this is the first time I have experienced where we have not been able to go ahead with our public works, roads and sewers until we found out if the tourist people were going to be able to pay some of their taxes. Most of the tourist industry in this community is three years in arrears in their taxes; we have not registered those properties because we'd have to register almost all the facilities in the tourist industry in this community.

This is a situation where we're in desperate straits. This is not something we've given very little thought to. We are asking for this opportunity because we want this community to survive. That's the state of affairs we find ourselves in.

We know there are people who are in strong opposition, for valid reasons, to a casino. In fact, in 1981 I was mayor and we had the opportunity to discuss casino gambling. I was opposed to it at that particular time with all the studies and the information I received, because we were talking about casinos and proliferation of casinos throughout the community. I'm supporting this because we're talking about one casino, and that's

all we're interested in in this community. We're talking about the stimulation of jobs. We're talking about giving the opportunity to people in business already to survive.

I have to look at gaming and what it has done in the last 10 years in Ontario. All of a sudden, we have bingos on every other corner, which is a form of gaming. The provincial and federal government now have lotteries where you can bet on sporting events. We have the racetrack just outside of Fort Erie. We have off-track betting being discussed. If anybody is naïve enough to think there isn't gaming in Ontario, we have casino nights in this hotel and others every weekend.

All we're saying is: Let's go one step further. Let's control it. Let's give us an opportunity to have one more attraction in this community to help us survive.

Mr Norman W. Sterling (Carleton): We've heard, at some of the previous hearings, some very negative aspects to bringing a casino to a community: increased police costs, increased crime. The Ontario Restaurant Association is against Bill 8 on the basis that there aren't enough guarantees in it that restrict casinos from providing food; the experience in other municipalities like Atlantic City is that the restaurateurs didn't benefit at all by the introduction of casinos because everybody stayed in the casinos to eat and get their other services.

A very thoughtful suggestion came to our ears yesterday, that before a casino is introduced in a community that community be required to have a referendum to ask what the people want. Would you favour a referendum in Niagara Falls before the government gave a right to have a casino in Niagara Falls?

Mr Thomson: If that were the will and that were the only opportunity we had to have a casino here, we would have to accept that. I'm even concerned about waiting for the Windsor experience to be evaluated. I'm not here talking in favour of this without a great deal of soul-searching and a great deal of thought. This community is in very difficult straits, and if we wait for two or three years down the road, many of the people who are in business here today are not going to be able to survive and they won't be around. I would like to get on with it as quickly as possible. If you're suggesting that's the only way to do it, then we don't have any choice, but many of the businesses in this community will not be around at that time.

Mr Sterling: So if in fact the decision was not made by the next municipal elections, you'd be in favour of putting that on the next municipal ballot?

Mr Thomson: I have no problem with that.

Mr Sterling: We've heard that another part that comes forth when you introduce a casino is that there are increased costs associated with policing in particular. Who do you think should be responsible for these costs: the municipality which hosts the casino and

presumably has the benefits? You're coming to the provincial government and saying, "We want one here." That says to me, as a future government member, perhaps, that you're then willing to bear the costs associated with hosting that casino.

Mr Thomson: Our impression is that there would be sufficient financial benefit to the municipality that policing and other costs, which even for traffic control and other things would have to be increased—I think the benefits to the community, people paying their taxes, would certainly offset that.

The other situation is that you said "the individual municipality." Every time we talk about tourism, every time we talk about the benefits to the community, we're encouraged to and are always talking on a regional basis; the province encourages that, the federal government encourages that. So you're not talking in isolation: We're talking about the regional municipality of Niagara when we're talking of the benefits of this.

Every municipality within this region would benefit from a casino in the city of Niagara Falls. The objective is to keep people here longer, to encourage them to go to Niagara-on-the-Lake, to encourage them to go to Fort Erie, to St Catharines and the other tourist activities that exist in this region. That's the objective, to try and keep them here for at least a week enjoying all of the tourism amenities we have throughout the region.

Mr Sterling: In Bill 8 there are very, very restrictive measures associated with the casino: You can't smoke, you can't have a drink. I'm one of the greatest advocates on the non-smoker's side; notwithstanding that, I believe people go into a casino, into a tourist environment wanting to relax and enjoy themselves. Do you agree with the very strict regulations surrounding casinos which this government has put forward?

Mr Thomson: I have no problem. We're actively involved in our municipality now in strengthening our no-smoking regulations with respect to public places. I'm a non-smoker and I support that and I have no problem with that. As for the drinking aspect of it, if it's within the area, I think we can live with that.

Mr Noel Duignan (Halton North): I want to set the record straight on a couple of points. On the question of drinking in the casino, drinking will be allowed in the casino but not at the tables; that's the difference.

In regard to Bill 8, this is not a Windsor-specific bill. Section 2 quite clearly sets out and does not limit casinos to Windsor only. Subsection 2(1) establishes the corporation to conduct and manage casinos and makes it an agent of the province, and under clause 4(c) states very clearly, "The objects of the corporation are...to provide for the operation of casinos."

Section 2, I understand, which you have some concerns about, basically deals with the city of Windsor area, and all this does is it defines the Windsor casino

site, provides an assessment date, fixes the date of value for the casino lands and allows the city the authority to deal with the site. But I have noted your concerns and I thank you for bringing your concerns around that section of the bill to us.

Mr Thomson: Our only concern there was basically, if you're going to do this, make it so we don't have to go through this exercise again each time you want to create another location for a casino.

1030

Mr Duignan: Our advice at this time is that the bill does not need to be amended to allow for casinos anywhere else in the province, but I have noted your concern around section 2 of the bill.

Ms Harrington: Mr Mayor, it's a pleasure to hear your submission. I want it clarified that Bill 8 is enabling legislation for a further casino or casinos. That has to be very clear.

Mr Thomson: We had a legal opinion on that, and if that's the case, fine, but we want to make sure that is brought to your attention.

Ms Harrington: Our parliamentary assistant has stated that that's the government's position, and we will certainly check that if you would like.

I found in our travelling with the committee this week that gaming and casinos certainly are a reality. In fact, casinos are all around Ontario, whether it's south of here—we went to Michigan—or whether it's east—in Quebec, I understood yesterday from the Ottawa radio station that there is a casino opening in Montreal on October 1—and certainly in Winnipeg, west of here. They're all around Ontario, and that is a drain on our economy. Many people feel that this is a real form of entertainment and that as such, it can be a legitimate part of tourism.

One concern we all have is the other things that come along with casinos, and there are studies that have been done and that we are still doing to address these: first of all, the job benefits—the direct jobs, the indirect jobs—the policing and crime, the effect on charities and the horse racing industry, and of course gambling addiction, this kind of thing. That's the reason we have a pilot project, to make sure that the introduction of a casino in Ontario has taken into account all those factors.

I think it would be irresponsible of me or this government to be advocating, if it is shown that the existence of a casino in a community invites problems that we are unable to cope with, so that's why we are doing the pilot project. I'd like to hear your response to that.

Mr Thomson: My response is the same as it was to the previous question. We have some severe problems. We're trying to deal with them in any way we can, and if we're talking about 1997 before we have the opportunity to have a casino, maybe that solves the problem, because I don't think we'll get one.

Ms Harrington: Do you believe a pilot project is needed to evaluate these factors?

Mr Thomson: I don't think you can compare Windsor with the city of Niagara Falls whatsoever. We have 12 million visitors coming here. We're trying to keep them here. Windsor is not in that situation. We have 11,000 rooms here. Windsor does not have that situation. We have all the other amenities to go along with it. Windsor does not have a tourist community, and in my opinion, if you do something in Windsor, it isn't going to have any bearing on what happens in the city of Niagara Falls. It's totally different. In fact, if you had a pilot project, you probably should have two or three of them just to determine exactly the situation.

The Chair: Thank you very much, Mayor Thomson, for presenting before the committee this morning.

Mr Thomson: Thank you for the opportunity, and again, we appreciate your coming here and giving the whole community the opportunity to make submissions.

Mr Peter Kormos (Welland-Thorold): The mayor just wishes you were staying overnight.

The Chair: Well, maybe I do too.

REGIONAL MUNICIPALITY OF NIAGARA
NIAGARA FALLS
ECONOMIC DEVELOPMENT AGENCY

The Chair: The next presenter is Brian Merrett, chairman of Niagara region.

Mr Kormos: Mr Chair, I'm not a member of the committee, but I saw there were a few empty seats on the government side and perhaps reinforcements would be appropriate, so I felt that I'd be accommodated.

The Chair: Thank you very much, Mr Kormos. Please proceed when you're ready.

Mr Brian E. Merrett: Welcome, members of the committee, to the city of Niagara Falls and welcome to the beautiful region of Niagara. I appreciate the opportunity to be here to make some comments about the region's feeling on Bill 8 and the proposed casinos.

Commitment by the council of the regional municipality of Niagara to support a casino project in the Niagara region has been confirmed by the passing of a resolution on January 21, 1993. That resolution stated:

"That the province of Ontario be requested to establish a second trial casino within the Niagara Peninsula to assist in the economic development initiatives of the region and the area municipalities, and

"That the region of Niagara support the resolution of the city of Niagara Falls of June 8, 1992."

It is the expectation of regional council that a casino project within the Niagara region will be a stimulus that is needed to jump-start the region's economy.

The region's economy has been stalled at best by the effects of the prolonged recession. Niagara's unemployment rate for the first half of 1993 averaged 14.1%

compared to the national average of 11.7%. As the mayor said, that's not a statistic we're proud of being first place in.

The number of unemployed in Niagara climbed to over 22,000 for this same period, giving support to the reports of local bankruptcies and corporate downsizing, resulting in layoffs, reduced operations, and at the extreme, complete closures. I don't have to remind you of the announcements from General Motors, Ford and others as they impact our region.

This in turn has exerted pressure on the region's already overburdened social services system. This is clearly evidenced by the soaring welfare rolls. On a year-to-date basis, monthly caseloads are averaging 13,700. When this is compared to average caseloads of 4,700 at the start of the recession about three years ago, it's a 200% increase. There's no question we need jobs for these people.

These statistics are a measure of the region's ailing economy, and while lower interest rates were expected to stimulate growth, building permit activity reveals just the opposite. The latest building permit reports identify a continuing downward trend, especially in the residential sector.

Another area of growing concern within the region is the willingness and the ability of our taxpayers to carry their burden and to pay their share of the taxes. The combined tax levy and collection experience of the area municipalities shows that the 1992 tax levy increase was 4.8% over 1991, whereas the total tax arrears position increased 33.9%. The mayor has touched on the significant tax arrears problem specifically in the city of Niagara Falls.

While these statistics have the makings of a fiscal dilemma, the region has positioned itself to handle the deteriorating economy by engaging in fiscal restraint and preparing for the economic recovery that will allow Niagara to further diversify its economic base. A major initiative is now under way as a result of the chairman's economic summit in developing a strategic plan to rebuild the region's economy and to build on the strengths of the Niagara region. There is no question that a growing and expanding regional tourism industry is essential to the economic renewal in Niagara.

As such, the region both needs and is prepared for the challenge of casino gambling. The region's current infrastructure is well suited to meet the increased demands expected from a casino project. The four international bridges, in addition to continual improvements on our regional highway system, will ensure traffic volume is adequately dealt with.

The present tourism services base, especially in Niagara Falls, is well equipped to handle an increase in tourism volume. Both upscale and budget accommodations are available throughout the region of Niagara.

Research relating to a proposed casino in Niagara Falls concluded that the actual number of tourists visiting the area may not increase significantly from the 12 million who already visit annually, but that the length of stay would increase. It was mentioned by the mayor that all the studies that have been done in the past point to that need to increase the length of stay of our existing visitors.

It's also anticipated that this would be a major stimulant to our bus tour industry. A casino project would constitute one more welcome attraction that will allow Niagara to build on its already solid tourism foundation.

1040

Concern has been raised as to the influx of crime that is commonly associated with gambling facilities. The Niagara Regional Police Force has formed a committee to study the impact of casino gambling on local police and emergency services. I'd like to just note that we have with us in the audience the chief of the Niagara Regional Police, Grant Waddell, and members of his committee who are following this issue and providing input to members of the police services board. I meant to mention at the beginning that, besides chairman, I am also a member of the police services board in Niagara.

The Niagara Regional Police are committed to the safety and wellbeing of the residents of the Niagara Region and should a casino project—I shouldn't say should, I should say when—be initiated in Niagara, law enforcement will adapt and meet the policing needs of the community.

Of great interest to all levels of government, to all of you sitting here, is the issue of taxes resulting from a gambling facility. All levels, federal, provincial, regional and municipal, will benefit. The federal and provincial levels will not only benefit significantly from the sales taxes that will be generated, but also from personal income taxes as a result of the 20,000-plus jobs that could be created. The regional and municipal governments will benefit from an increased property tax base. As well, the overall regional economy would benefit greatly by sharing in the hundreds of millions of projected revenue generated annually by the casino.

Perhaps more important will be the spinoff effects that will help push the region's economy out of these current doldrums. Specifically, residential activity will be expected to grow, increasing housing starts, which would increase create a market for building products. The resulting commercial capital investment in entertainment, shopping, night life and other potential investments will all contribute to the badly needed revival of our economy.

The benefits of a proposed casino project are many. However, procrastination on this issue can mean the difference between millions of dollars generated for Canadians or those same dollars in the pockets of our

neighbours to the south. We know that many American cities are very aggressive in their attempts at entering the gaming market. Should we delay in coming forward with another site, we may soon be saturated by American casinos within close proximity to the border, thus taking away any advantage Windsor or Niagara Falls would have in having a casino put forward quickly.

I appreciate the opportunity to be here. I would just urge you to please consider Niagara for a second trial site. I think it's important for you to have the comparison between what is happening in Windsor and what can be provided in Niagara. Thank you very much. I will be pleased to answer any questions.

The Chair: I just want to clarify for the members that we have this 30 minutes shared by the Niagara Falls Economic Development Agency and the chairman of the Niagara region. That means that if we're going to share the time equally, we have five minutes for all the members to pose questions to Mr Merrett at this point in time; that's not a lot of time.

Mr Merrett: I can answer them quickly.

The Chair: Or we can call in the Niagara Falls Economic Development Agency and maybe have more time to share at the end. I think that might be more appropriate. Mr Mallouk, please begin your presentation immediately and we'll take questions at the end of that.

Mr Gabriel Mallouk: My name is Gabriel Mallouk and I am before you in my capacity as chairman of the Niagara Falls Economic Development Agency. The economic development agency is wholly in support of one government-regulated casino to be located in our city, and this brief will present the rationale for taking this position.

We recognize that this hearing was convened to discuss the merits of Bill 8, the Ontario Casino Corporation Act, 1993. Our criticism of the proposed legislation is that it restricts the establishment of a casino in Ontario to a geographic area in the city of Windsor; therefore, my presentation will be directed to providing a rationale which should be considered to amend Bill 8 in order to permit one government-regulated casino in the city of Niagara Falls.

The request for proposals for the Windsor casino complex specifically identified various ministry objectives, which are as follows: to act as a catalyst for community economic development; to create jobs; to promote tourism and hospitality industries; to establish a new, viable industry in the province; to provide revenues for the province.

I submit to you that the city of Niagara Falls, as a community, meets all of the objectives stated above. Over 50% of the economy of Niagara Falls is directly dependent on tourism, and for the last few years tourism has been on a decline, causing great hardship for our local economy.

During the late 1980s, a tourism economic impact study was completed for the city of Niagara Falls. This joint effort by Tourism Canada, the Niagara Falls Visitor and Convention Bureau and the city of Niagara Falls tabled a 10-volume report in March 1988. I would like to detail some of the findings of this most comprehensive study:

"While tourism has always been recognized as a major sector of the Ontario economy, its economic impact on local communities and economies has received only partial attention. In some of these economies, such as Niagara Falls, tourism is the leading local economic sector, and the economic health and prosperity of the region are critically linked to development in this sector."

The economic indicators of tourism as it affects Niagara Falls and the province of Ontario were measured in accurate detail with this study, and these numbers are so significant that it is incumbent upon me to present them to your committee:

"Tourism expenditures in Niagara Falls are estimated to have exceeded \$504 million in 1987. This expenditure by Ontario visitors, other Canadians, US visitors and overseas visitors for food, lodging, transportation, amusement and other travel items generated a substantial amount of income and employment in Niagara Falls, surrounding regions and the provincial economy.

"Exhibit 1 summarizes the economic impact of year-round expenditures by tourists in Niagara Falls. More than 27,900 person-years of employment in the province were associated with these expenditures, of which 11,828 were directly generated; thus for every direct job, almost another job and a half were created in the province by industries indirectly related to tourism. Of the total jobs created, only 14,807 were sustained in Niagara Falls, with the remaining jobs scattered all over Ontario.

"A substantial amount of income was created in response to the tourism expenditures in Niagara Falls, both in Ontario and in the local economy. The total Ontario income increased by \$681.7 million, with the local economy's income increasing by \$307.7 million. The overall income multiplier is 1.35; thus for every dollar spent by tourists in activities directly serving tourism (ie, accommodation, transportation etc) in Niagara Falls, about 35 cents more was generated in indirectly related activities throughout the province. Only 61 cents, however, was retained in Niagara Falls.

"In the case of both employment and income, Metro Toronto, other Festival Country areas and southwestern Ontario account for most of the impacts outside of Niagara Falls, Ontario.

"A total of \$1.2 billion worth of sales in the province were sustained by the tourism expenditures in Niagara Falls. Of this, about \$411 million came from outside

Ontario: \$215 million from other provinces and \$196 million from other countries.”

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Expenditures of \$504 million and direct employment of approximately 15,000 people cannot be ignored, nor can tax contributions representing \$186 million be considered to be insignificant to the economy of Niagara Falls or that of the province of Ontario. I underscore these numbers for two reasons: first, the tourism economy is in decline, and second, your committee can help the community of Niagara Falls, its citizens and the citizens of the province of Ontario by positively recommending the establishment of a second government-regulated casino for our municipality.

The study continues, demonstrating that the continued health of the tourism economy in Niagara Falls is directly correlated to the development of new tourism products to retain visitors for an increased length of stay. Again, I quote from the study:

“The large volume of tourist activity in Niagara Falls indicates that the city has significant appeal as a tourist destination. However, the survey results report that 79% of spring visitors and 66% of summer visitors are staying in the city for one day or less. These results suggest that there are insufficient attractions and amenities in Niagara Falls to keep the visitors in the city for more than a maximum of six to seven hours. In order to increase the length of stay of visitors and the number of overnight trips and, as a result, of spending levels, it would be necessary to provide more things for visitors in Niagara Falls to do.” However, “in other destinations, an attraction which is the demand generator of the trip generally receives the benefits of the greater part of the length of stay and associated spending. This is not happening in Niagara Falls, probably because people are not being given enough reasons to stay for more than a limited time period.”

The aforementioned is the rationale behind the Niagara Falls Economic Development Agency providing its wholehearted endorsement. The board of directors has discussed the casino project at its meetings on a number of occasions and has unanimously supported the project.

During the earlier part of 1993, the economic development agency coordinated a petition supporting a government-regulated casino in Niagara Falls. This petition was signed by 3,200 residents from all sectors of the community and has been tabled in the Legislature by our provincial member, Margaret Harrington.

One of the reasons that the economic development agency has unanimously supported a casino project for this city is the extreme decline in other sectors of our economy. The manufacturing sector, which historically generated wealth and prosperity for its citizens, is in a state of decline. It has been buffeted by the effects of global competitive pressures, and approximately 8,000

jobs have been lost in the last two years in the manufacturing sector in the region of Niagara. These jobs will not be easily replaced, as they were caused through the rationalization of fixed costs from many multinational enterprises.

The amendment of Bill 8 to include Niagara Falls as a casino project community would provide a very positive catalyst for the economic environment of the community. Informally, we are aware of the increased investment and development activity in the city of Windsor subsequent to the announcement of the casino project, and we desperately need similar good news.

It is difficult to accurately predict the economic impact of a casino project in Niagara Falls. However, we believe that a world-class facility meeting the criteria of your ministry would provide for a capital investment in the order of \$150 million to \$250 million. It is believed that 1,500 person-years of employment would be directly associated with the construction of the project over the 18-month period and that there would be an additional 1,400 indirect jobs through spinoffs on our local economy.

The provincial government recently tabled Coopers and Lybrand's report on the economic impact of tourism, which suggests that 8,720 direct jobs would be created with the establishment of a casino. Indirectly, 10,305 job opportunities would be provided to the community. We desperately need these 19,000 jobs in the city of Niagara Falls.

In conclusion, I strongly urge you to amend Bill 8 to allow one government-regulated casino in the city of Niagara Falls. Our economy is in dire straits and we need a casino project to revitalize our tourist industry. I have attempted to provide you with the significant economic factors that have led us to the conclusion of unanimous support for the project. As part of my submission, I would like to table copies of the main report and executive summary of the tourism economic impact study that was conducted for our community.

Thank you for allowing the Niagara Falls Economic Development Agency to make this presentation. I urge you to amend Bill 8 to include Niagara Falls. Our future as a community and that of the tourism industry are resting in your hands. Thank you.

Mr Gary Carr (Oakville South): Thank you for your presentation, Brian. I know you've been into Queen's Park on numerous occasions, representing Niagara on many issues, and we appreciate it.

I'm interested in the job figures you come up with on page 8. Do you believe that number of jobs is what we're going to be looking at in terms of a casino here? Maybe you can give us an idea of the size of the casino and the number of people you see being employed directly as well as the spinoff jobs and, if I could ask just quickly because I won't probably get another

chance, what the total in terms of millions will be to the community in Niagara. Could you maybe fill in some detail?

Mr Mallouk: I would ask our director to answer that.

Mr Charles Baltjes-Chataway: The numbers we've included in the economic development agency's submission have been extracted from the Coopers and Lybrand report, which was tabled, I believe, at the commencement of the hearings in Windsor.

Mr Carr: Have you done some of your own, though? Have you done your own to back up the studies?

Mr Baltjes-Chataway: Yes. Actually, surprisingly, our economic generators were approximately half those that were determined or projected by the government's consultants in the Coopers and Lybrand report.

Mr Carr: I appreciate that. Anybody would say any number of jobs would be good because of the terrible economic impact—

Mr Baltjes-Chataway: I think that's the position we're taking; that's very fair to say. If we're out by the order of 100, we're still talking about 10,000 jobs, and they're desperately needed in the city of Niagara Falls.

Mr Carr: Some people would say even if it's 10, it's better than nothing. On the downside, though, there's some concern in rural Ontario regarding the horse racing industry, that they will lose jobs. What's your feeling here in Niagara about the concern of rural Ontario that it's going to lose in terms of horse racing? Do you see any downside? Do you think casinos will compete with the horse racing industry in Ontario?

Mr Merrett: The feeling, in discussions we've been part of here in Niagara, is that the two can complement one another. It's another form of gaming, another attraction that can be marketed to benefit tourism here in Niagara.

Ms Harrington: I have to leave soon and my colleague wants to speak, so I just wanted to reply to a comment you made on page 7. You said, "We desperately need similar good news." I would like to put on the record that this government takes the interests of this city and the concerns of this city very seriously. For instance, as you know, this summer the strategic studies are going on in the tourism industry in Ontario and how we can plan for the future of tourism. Part of that is the Gateway project, which is an absolutely novel and astounding investment in this city that our government is very seriously doing over the next few months, with your help and of course with the private sector. We're doing the preliminary work on it between now and December, and that will have implications for many years down the road. Also, I just want to remind you of the move of the Ministry of Tourism and Recreation.

We are taking this city's concerns extremely seriously

and doing whatever we can, which of course doesn't manufacture jobs in the industrial sector immediately, but we're also looking at the long-range infrastructure for new technology-type jobs as well. Of course, we're working with the chairman in his economic study as well.

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Mr Kimble Sutherland (Oxford): It's obviously very good that the community is looking at diversifying; both you and the mayor talked about diversifying. As Margaret has just pointed out, the provincial government, by maintaining its commitment for the relocation projects, both the one here and the Ministry of Transportation in St Catharines, has demonstrated that commitment to support the region in diversifying.

You've talked this morning about casinos and how that supports the tourism industry. I'm wondering what some of the economic development agency's plans with diversification outside the tourism area.

Mr Merrett: As Margaret mentioned, through my office there was an economic summit held at the end of May, in which we did an analysis of not only our manufacturing sector and the problems it's been experiencing but also developing a strategic plan to look at other areas of our economy that are growing.

We are very proud of our wine industry, and you are all very aware of the success it is achieving not only within this country but internationally. They are growing in leaps and bounds, and we see that as a plus for the agricultural industry and tourism, because they are becoming a very important component of our tourism marketing.

We see our horticultural industry, cut flowers. I refer to it as our sleeping giant. As you come down the Queen Elizabeth Way and see the greenhouses along the escarpment, it has become a tremendous industry in Niagara, and growing. We shipped over a million poinsettias to New York City last Christmas, a 747 full.

We are diversifying in those areas, but certainly the tourism economy is the backbone, along with the auto industry. We all know what's happening in manufacturing and the auto sector specifically, so we are looking at our strengths and building on those, and of course you don't have to look very far; you can just hear it from here. Niagara Falls is the backbone of the tourist industry of the region.

Mr Monte Kwinter (Wilson Heights): I don't want to talk about the morality of casinos; I don't want to talk about the social impact. That decision has already been made by the government, obviously.

What I do want to talk about is the economics. I want to be upfront and say to you that if casinos are going to happen, I think Niagara Falls is the absolute perfect place to put one. Where I have some very serious problems, and I question a lot of the assumptions, is the

economic benefits that are going to accrue as a result of it. In your last statement, on page 9, you say, "Our future as a community and that of the tourism industry is resting in your hands." If that is the idea, that the casino is going to save Niagara Falls, you're going to be in for a horrible disappointment.

Let's take a look at the figures. Right now, you have 12 million visitors a year. The projections for Windsor, where they hope to build a whole tourist industry, is for 4.3 million and some-odd: 12,000 a day-times 365. The infrastructure you have in place is there, but the spinoffs are not going to be there. What you're going to get from a casino in Niagara Falls is the construction value, the man-hours of work to build it, which will be comparable to building the hotel we're in, one hotel for one time. That will be it: That's the benefit, which is a plus, and I say that's great. You're going to get the actual jobs in the casino and very little else, because all these other jobs that are supposed to go to Windsor are already here: All of the support, all of the restaurants, all of the hotels, all of the tourism attractions, are here. They're not going to increase because there is a casino.

In your presentation, you say you don't expect the numbers to increase very much, that the 12 million visitors will stay at about 12 million, so your hope is that people will come and stay longer and you will get some benefit if they do. But you also have to understand that this isn't going to be unique: They're proposing three for Toronto, one for Windsor, one for Sault Ste Marie, one for Ottawa.

You're going to get some residual spinoff, but to think that this is going to suddenly solve the problems of Niagara Falls and this region I think is naïve and almost irresponsible. It's just not going to happen. You're going to get people coming in, they're going to gamble and the bulk of the revenue, other than what you get from the jobs, is going to the consolidated revenue fund of the province, and most of that will be going to service the debt that the province has.

I'm all in favour that if casinos are going to happen, have them here. But to suggest that this is going to somehow or other change the character and save the tourism industry in Niagara Falls is naïve and just doesn't stand up to scrutiny. I'd like to hear some of your comments on that.

Mr Merrett: I appreciate the opportunity to answer. With respect, I regret that the member said the position we've put forward is irresponsible. If the member would spend some time in the region of Niagara and the city of Niagara Falls, I suggest he would see the tremendous economic difficulty we are having, the tremendous economic difficulty our tourism industry is having.

All of the tourism studies that have been done over a number of years, and there's volumes of them, point to the need for increasing the length of stay of the existing visitor. Some statistics show that the average

visitor stays four hours, spends \$27 and then heads up the road to Toronto or whatever. All of those studies point to us needing another attraction. I suggest that this is that other attraction we need to increase the length of stay. If it attracts additional visitors, so be it, and that's the gravy, but we need that incentive to have those tourists stay here.

We have already seen and had an opportunity to measure the Monte Carlo nights, some that have been held in this room, and the tremendous number of people they are drawing who are staying in the city of Niagara Falls. We've had comments from the bridge commission about how it's seen the numbers increase tremendously in bridge traffic the night those large Monte Carlo nights were being held. I think I'll stop right there.

The Chair: Actually, we're past the time. I do want to thank the three of you for presenting before the committee this morning.

Mr Merrett: Thank you for your indulgence in having us here. We hope you'll stay over the weekend in Niagara.

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TEAM NIAGARA TOURISM

The Chair: Our next presenter is Norm Puttick, chair of the Team Niagara Tourism casino task force.

Mr Norm Puttick: I believe you all know Murray Johnston, the executive director of TNT. I too, as an alderman, would like to welcome you to the city of Niagara Falls. As you read through the brief, which will only take about 10 minutes, I may insert the odd line to explain a little bit better; I took another look at this at 6 o'clock this morning.

My name is Norm Puttick. I am the chairman of the Team Niagara Tourism gaming casino task force. TNT is an organization comprised of volunteers from business, government—local, provincial and federal—and the tourism industry in the city and region who are working together as a team to continue to make Niagara Falls a world-class destination. We are therefore united in this presentation to secure a gaming casino as an added destination attraction for the visitors to our city. We know a casino, possibly in conjunction with a convention complex, will without a doubt give Niagara Falls the ability to truly function as a year-round destination.

On behalf of TNT, I take this opportunity to congratulate Mr Rae and his government for initiating Bill 8. This city has been waiting at least 30 years for some initiative to allow the province of Ontario, and more particularly Niagara Falls, to participate on a level field with other tourist areas in the USA and North America which have proven that a casino will work as a tourist attraction while creating much-needed jobs and spinoff benefits.

I am not here today because we have to compete with

Windsor, Toronto and Ottawa. I am not here because of the recession; others will speak to that. I am here on behalf of TNT to tell you that Niagara Falls is the best place in the province for a casino.

Something is terribly wrong that our city would have to wait for a casino while Windsor is studied. I received just a week ago a copy of the Coopers and Lybrand report prepared for the Ontario casino project, which certainly shows that a casino in the Niagara Falls area could start immediately. I interject here that I am an alderman, first elected on December 2, 1966. I also chair the city of Niagara Falls conference and convention committee. I know how the political process works and the necessity of studies to demonstrate need. However, there is no need to wait until Windsor is studied. I submit that the province's own study prepared by Coopers and Lybrand addressed the economic benefit and opportunities to enhance tourism through the establishment of a casino. It also addressed issues surrounding social concerns.

The city of Niagara Falls, with 12 million visitors annually, has been the subject of numerous tourism studies. The 1988 tourism economic impact study completed for Niagara Falls concluded that the full benefit associated with its position as a visitor destination has not been realized. The development of a facility in the city which would act as a demand generator would ensure that Niagara Falls, the region and in turn the province receive the full benefit of visitor spending by extending the stay of tourists. The development of a casino in Niagara Falls is a demand-generator facility which meets the intent of the tourism economic impact study, which, by the way, I think was partly paid for by the province.

The Coopers and Lybrand report identifies job creation as one of the goals of establishing casinos in the province. It is a documented fact in the tourism economic impact study that one and a half additional jobs are created in the province for every one job created in tourism in Niagara Falls. What better way to develop a job creation program in the province than to open a casino in the city?

I might interject to one of the questions that you asked another member that our industrial people are losing jobs. You could use some of your Jobs Ontario money and turn these people into first-class workers in tourism.

Niagara Falls has a well-established tourist market with a full range of secondary attractions. This is not the case in Windsor, which must establish secondary tourist attractions. I have a computerized list of all motor coach destinations in the province of Ontario prepared by Sea Tourism Travel Research. Of the 30 destination attractions in our province, the top 10 attractions are located in the city of Niagara Falls, and seven other attractions are listed further down; thus we

have 17 of the top attractions in Niagara Falls out of 30 in the province. I might mention that Windsor isn't even mentioned. Ottawa has two, Toronto has six and so on. Therefore, Niagara Falls holds an important position in the province to generate spinoff visitor expenditures. Who could deny we are the number one attraction city in Ontario?

Niagara Falls is striving very hard to enhance its attractions in the off-season. The winter Festival of Lights is one such major annual event. Last year we joined forces with the Disney Corp which has increased the appeal of the festival which generates \$40 to \$60 million in spending during the course of the event. This event expands annually and now includes a major New Year's Eve show which was televised last year.

A section in the Coopers and Lybrand report refers to the 1988 Niagara Falls tourism strategy which suggested a major new attraction would help improve our hotels and infrastructure.

The bottom line on this point is that the person who authored the section for the Niagara Falls report did not visit this city to bring up to date the 1988 report, but I was told he lived here some 10 years ago and he used him as an authority.

This hotel where you're sitting, for example, has been completed in the last few years and is a full-facility hotel which has developed since the 1988 study. Approximately 18% of the current hotel inventory has been added since 1987. Many of these hotels are affiliated with North American chains which provide a recognized level of comfort. As only 24% of Niagara Falls visitors arrive between October and March, there is additional capacity in the accommodation and restaurant infrastructure to support a much larger tourist market. Changing social characteristics mean that there are more retired and childless couples who can be attracted during the non-summer seasons.

Niagara Falls is served by the Queen Elizabeth Way, which is currently being widened to three lanes in each direction. There are three international bridges which serve the city. The Niagara Falls Bridge Commission has adopted a 30-year plan to upgrade these facilities and is proceeding with implementing changes at the Rainbow Bridge. The region of Niagara holds lands in reserve for a possible freeway. If needed, a highway connection could be developed parallel to Stanley Avenue to connect Highway 420 with the Niagara Parkway to the south. That freeway, by the way, is a stone's throw away if you look out the window of this building.

The city has a municipal transit system and tourist shuttle link to move visitors through the city. This is in addition to the Niagara Parks Commission people-mover system which serves the tourist population. The Niagara Falls tourism master plan completed in 1992 concluded that further expansion of local and regional roads is not

necessary. It did nevertheless recommend an operational review of the transit and people-mover systems, and that review is now under way. Once again I say this is a city well equipped to serve the tourist.

I might insert here that we have the St Catharines airport and the Niagara Falls, New York, airport. I have talked to the people in Niagara Falls, NY, and we could bring the people in here so fast on airplanes that it would make your head swim.

The city's position could not be further improved if a conference centre were to be established. I have excerpts from studies completed between 1965 and 1992 which highlight this fact. A casino would be a great enhancement to a conference centre and could bring the number of visitors to the city on a yearly basis to 28 million persons. I have that report here; I asked several people in government if they knew about that, and they said they'd never read it.

The Coopers and Lybrand report indicates that a casino in Niagara Falls could generate cash flows of over \$166 million. I believe that's low. This will generate millions of dollars in spinoff benefits for the local, regional and provincial governments. I recently talked to my friend Councillor Howard Moscoe of Metro Toronto, who chairs the Toronto-area convention committee. He agreed that the draw of tourists to Niagara Falls has a spinoff effect for Toronto. We are to meet, along with our mayor, hopefully in a few weeks, to discuss our mutual appreciation of a casino and tourism.

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Atlantic City has now embarked on a massive program for a 460,000-square-foot convention centre on one floor to further entice visitors and to enhance its casino facilities. To make sure it is successful, they just bought a small airport to ensure that visitors can reach Atlantic City directly. I have those reports here if you wish to see them later.

When Atlantic City was contemplating a casino and convention centre, one New Jersey official was asked, "Are you not taking a risk with Philadelphia and adjacent states building casinos and conference centres?" The answer was, "The risks are much greater if we do not take the risk."

This also applies to Niagara Falls. If we want to enhance our attractions and infrastructure, with a casino the risk is great that we will lose our position if we are second to Buffalo, Syracuse or Niagara Falls, New York. I was just told last week at a conference in Hamilton that Syracuse is now open.

In closing, let me add a personal note. I want for my family and my three grandchildren a vibrant, healthy city and province. A casino in Niagara Falls will do much to ensure this. I would not be here today if I thought a casino would harm this city and province in

any way. To those who are opposed to a casino, I say that TNT members understand your concern, but we are talking about one world-class casino, not a row of 12 or so one strip. We require a tourist enhancement facility, and we believe in the evidence of all the studies done for our city, that this casino will be the catalyst for solid growth and prosperity.

We have the visiting bus tours. We have 11,000 hotel and motel rooms. We have the attractions. We have the one and only falls. This is a city familiar with serving visitors. We have the supported land uses and a ready labour force, willing to work in the industry if given the chance. Niagara Falls is ready now.

As Ross Perot said of President Clinton's budget: "You don't build a bridge two thirds of the way across the Mississippi. He hasn't gone far enough." Similarly, Bob Rae and his government have not gone far enough. Bill 8 provides only one casino in the province at this time. This is the same as building only part of the bridge. If the full economic recovery of the province is to be achieved, we must all do our part to complete the bridge. Well, TNT members sincerely believe that Bill 8 must be expanded to allow a casino in Niagara Falls. This will finally allow us to complete our bridge with all the plans from 1965 and let us get on with running our city prosperously for the benefit of its residents and the province of Ontario.

I do wish to advise you that I compiled most of the notes for this brief, but I want to acknowledge our planning department and Murray Johnston at city hall who added some of the facts and rearranged the paragraphs so I wouldn't get carried away too far. But this is sincerely submitted, and any further dialogue TNT may have before you leave today or in the next few weeks would be very much appreciated.

Mr Sutherland: Thank you, Mr Puttick, for coming on behalf of Team Niagara Tourism. I just want to repeat, as Mr Duignan the parliamentary assistant said, that it is certainly our interpretation that the legislation being an enabling piece of legislation, in the way it's worded now with some references to specifics of Windsor, does not limit the ability for new casinos to be established without having to change the legislation.

That said, the parliamentary assistant has also pointed out, as have others, that at this stage of the game we are just looking at the Windsor project and using that as a pilot project and testing that. I know from the presentations this morning that there seems to be a great deal of eagerness and support in this community, and some have said, "Why don't you just go ahead?" But we are dealing with a new area, we are dealing with a new industry coming to this province, and by allowing the regulatory agency to do its function with just one rather than having to deal with four or five casinos at once, I think there's great benefits to doing it that way. It's just like our successful franchise businesses didn't build

them all at once; they started with one and kept building and going from there and learning from what occurred.

The question I wanted to ask you is that we've heard throughout these hearings that some people view casino gambling as a different type of gambling from other types, whether that be bingos or lotteries or betting at the horse races; some people see this as a more evil form of gambling. How do you respond to that? How do you think people develop a view that one form of gaming is worse than another form of gaming?

Mr Puttick: The only proper answer I can give is that you're saying "some people." If you were a little more specific—but if you're talking about the general population of Ontario, I'd have to say that they don't do their research. You always have the malcontents; they get up and they want to show in a community. Whether it be church or some other organization, they're against everything. I can remember when I first got on council we never had liquor here.

Interjections.

Mr Puttick: Did you ask me to answer the question? I'm trying to do it as honestly as I can. The only way I can answer it in a broad text is because we do have representation from the church. What I'm saying to you is that nobody has proven this. If you look at gambling, at prostitution, at crime, I can give you my answer to that if I were here this afternoon to respond to any brief against casinos: The problem starts in the family. The church are the people who are supposed to bring the families together. Our problem isn't casinos. If casinos were the problem throughout the world, why do we have wars? Casinos didn't start it. I'll leave it at that; I could go on for an hour about that. I mentioned my grandchildren; my grandchildren are brought up properly. That's the problem.

I'm an elected person and I'm going to be very blunt about it. I'm elected and I was asked to help bring a casino here and I'm going to do it. Anybody who wants to oppose that has a democratic right.

I could go on. In fact, you can't answer your question very simply. If I worried about getting elected in this town because of opposition, I wouldn't have been around for 27 years, okay? Let me answer it that way.

Mr Gerry Phillips (Scarborough-Agincourt): Our experience on the committee on the casino thing is that—I've used the expression—it's a bit like a gold rush. Every community we go to has stars in their eyes about it and see it as a cash cow. I don't think it's unique to Ontario; I think virtually every community in North America now sees this as an enormous cash cow, so I suspect there'll be incredible pressure to proceed with them everywhere. I think our native community will see quite a few of them. It probably will not be a debate around whether to have them or not, because everybody's going to want them.

My question really is around the form you are advocating. The proposal is for a \$250-million investment, roughly; the Windsor proposal is about \$100 million. Therefore, the casino that I seem to see you visualizing seems to be much larger. I would like you, as the chair of the committee, to spell out for us the facility that you visualize here, the funding for it; I gather it's private sector funding for the \$250 million. I think you called it a world-class facility in your brief. Do you see it having a hotel attached to it and large restaurants and entertainment, that sort of thing?

Mr Puttick: What I envisioned: In 1989, long before we were into hearings or the present government was in power, I wrote a letter to a very influential person in the United States, Atlantic City, who has casinos, and I suggested to him, on my own, without council authority, that he build a casino in Niagara Falls, New York. At that time, my theory was that no government in Ontario would even think of casinos. The response I had was, number one, a letter to the effect that because of other expansions, they weren't going out of their certain area.

I'm answering your question, by the way.

Mr Phillips: Good.

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Mr Puttick: To come up to date, when the government announced casinos and also the first one in Windsor, I wrote another letter and sent two letters back that I had from these very reputable people, and I received a phone call about two and a half months ago. That point came up. I can tell you right now that I had a phone call yesterday from the chap I am talking to, hoping to bring, as the government has asked, private money. He phoned me yesterday. He was in Tokyo; they're thinking of going there with this type of business. I said: "Look, I have to give a presentation tomorrow. I will of course not use your name, but can we meet with our mayor and our CAO and those people involved, and would you still say you would not build rooms with your casino?" He said yes, except that maybe they would have 100 or 200 for those people who wish to come in and pay \$1,000 a suite.

So in answer to your question, what I envision is that this casino would be built in cooperation, obviously, with the government restrictions. If it's 70,000 square feet, we'd leave one wall we can take out and make it larger in the future. I envision a convention centre attached to this. As I mention here, I'm chairman of our local conferencing committee. With every convention I go to, people want to come here, but we need that one facility to get people in. I envision a convention centre in line with what you're thinking.

I don't gamble. I'm also chairman of our non-smoking committee; I don't smoke. So I'm looking at this as an attraction, that if people come here they'll stay overnight and spend a little money there, maybe stay two nights and on they go.

We want something in line with what you have in mind, and we want it now. If you want it now and if you'll tell me within the next week—and don't worry about the seven or eight people who aren't going to win in Windsor, to get that job—I can bring a first-class operation here. I can have a meeting with the Ontario government next Monday, and it would just knock this town and this province on its ears and you'll have all the money you want. That's no problem.

Can I observe something else? I have a report here from Atlantic City. Do you know the problem they had in Atlantic City? It wasn't the casinos. It was the politicians.

Mr Sterling: Given the monopolistic nature of casinos and the ability to have one or to have one of two or one of three, I think it is not hard to attract a great deal of money if the government is willing to give enough in terms of the monopoly and of the take in order to attract that kind of investment.

My concern is that I represent an area in eastern Ontario, the city of Kanata, which because of the nature of the high-tech industry is being able to survive fairly strongly in this recession and isn't doing all that bad, but I also know that in eastern Ontario there are some areas that are doing much worse than Niagara Falls. I refer to the community of Cornwall, which has been devastated in terms of the losses which it has incurred in its manufacturing sector, has no tourist industry to speak of etc, and it is asking for a casino as well. How do we as politicians in Ontario say yes to Niagara Falls, yes to Windsor, yes to Ottawa, which was in to see us yesterday, and say no to Cornwall?

Mr Puttick: That's easy: Don't say no. But I can tell you this, on my way to a conference last year in Pembroke I heard about Cornwall, and I don't share your view. That's a very beautiful area.

Mr Sterling: I didn't say it wasn't beautiful, sir. I said it was devastated.

Mr Puttick: No, I'm just saying it's beautiful, but let me tell you what I think you should do. I stopped at Trenton on my way to Pembroke, and when I checked into the hotel, about 10 minutes later this chap came out, I believe from the Rotary Club. He saw the registration from Niagara Falls and we got talking. I learned that eastern Ontario, from Pembroke down to Trenton, has special consideration by the Ontario government. They receive moneys there, as I understand it, to hold conventions, for accommodations, a convention centre and arena, and your mayor was the one who pushed that in Cornwall to get this.

However, my point is this: You held a conference there of 2,500 Rotarians, I believe—I can be corrected on the number—and you housed those people miles away from your conference centre, and the information I had on a follow-up was that they loved it. I have no

argument with you giving a casino down there. If you had a casino there, you'd have them coming in by boat.

What I'm trying to say to you is, don't study it for two or three years. We all know the answer: We need casinos. Cornwall needs one, Niagara Falls needs one, if they can prove they can handle it. We can handle it. Give Cornwall one. That doesn't bother me at all. In fact, I wouldn't gamble, but I'd go down there and have a look at it.

Mr Carr: You seem to be well on your way in terms of planning. As somebody who grew up in Toronto and has been coming down to the Niagara region for many years, as a matter of fact probably before you got elected, where exactly do you see it being planned? As a follow-up to the question that was asked earlier, where would you like to see the casino in Niagara Falls? Have you gone that far? Where would you put it?

Mr Puttick: I'm speaking for myself, and I think it's no secret. I sat on the Niagara Parks Commission for three years, 1979 and 1980, and we talked a little bit about it, and in 1990 I was on for a year. In answer to your question, I would like to see the Ontario government get the Hydro land on the corner of Murray and Buchanan that has probably been studied to death. The last suggestion I heard was to put a first-class casino in there, along with a convention centre, rehabilitate the bus depot we have, buy it out, get the buses in there and build a parking garage and get on with it. Hydro's got lots of money. Give us some money. Let us build it right there. We could start that thing in six months. The plans have been made, not so much for a casino. I was on the parks commission, as I say, in 1979. It's studied to death.

Mr Carr: Then we're all zoned and ready to go in that particular site?

Mr Puttick: Speaking for myself and as the chairman, I'm going to tell you something. If you were to see me afterwards over lunch and said, "Look, I think this committee's going to approve a casino," the mayor of this city and Murray Johnston and all those people who have a little more effect on planning than I do would have this thing built so fast it would make your head swim.

The Chair: Mr Puttick, Mr Johnston, thank you very much for presenting before the committee this morning.
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SOCIAL PLANNING COUNCIL OF NIAGARA FALLS

The Chair: Our next presenter is Julie Darnay, the Social Planning Council of Niagara Falls.

Mr William Meredith: Good morning. My name is Bill Meredith. I'm the president of the Social Planning Council of Niagara Falls. With me is Karen Stern, one of our board members, Rhonda Lambert, a researcher, and Julie Darnay, our executive director. Karen will be

presenting our report and I will be bringing a brief summary at the end.

Ms Karen Stern: Ladies and gentlemen, the following is a presentation of facts derived from reports, news articles and studies regarding the issue of casino gambling. Highlighted sections reflect possible impacts as indicated by a summary of those facts. The findings of the literature search should allow our community to proactively plan for the potential development of casinos in Niagara Falls.

The development of a casino in Niagara Falls will generate the beginning of an economic renewal of this city and the surrounding communities. Research indicates that casinos have the ability to affect unemployment rates and as a result lead to the potential reduction of social assistance cases and food bank usage, as well as other social conditions. The establishment of a city-directed casino committee displays our council's dedication to proactively plan for an economic renewal. The outcome would be the development of a responsible industry which would ensure optimum benefits and preventive plans.

No one can ignore the potential benefits to the tourist industry, nor should they not recognize the effects on spinoff industries. Although negative social impacts are possible, recognition of those impacts will allow our council and community to plan preventive measures guaranteeing an industry which is not only beneficial in the long run but also responsible. Should a casino be developed in Niagara Falls, the city of Niagara Falls should strike a standing committee to monitor over time the impact of casino gambling, to prepare strategies to prevent or minimize negative impacts and have the power and the resources to enforce those strategies.

I will now present to you a summary of the literature search findings. Those findings are detailed for you in the paper provided. Each section will have research highlights, what the research indicates and questions for consideration.

Through the research it was discovered that \$9.5 billion is spent in Canada on gambling and gaming; 1.3% of the provincial revenue is derived from gambling and gaming. Windsor is predicted to produce \$140 million in revenues. If casinos are opened in the seven suggested areas, consumer revenue would be about \$1.4 billion, with another \$850 million in tax revenues. It is estimated that \$166 million could be generated in Niagara Falls alone.

The research indicates, therefore, that casino gambling will produce high revenues, but questions we must consider are: Where will the profits and the taxes derived from these casinos go? With the number of casinos proposed and existing, are the potential revenues too high for what we've produced in this area?

Through the research it was discovered that in

Deadwood, South Dakota, land values have increased 10 times their amount since the inception of casinos. Taxes on local businesses increased sevenfold within three years and property assessment tripled. In Atlantic City, dramatic increases in land costs and taxes forced small business out. This research indicates, therefore, that land prices in casino communities have the potential to increase, as well as taxes and assessments for businesses in casino areas.

We need to consider: Are there proposed strategies in place to prevent taxes from skyrocketing around the casino areas and thus preventing those experiences of Deadwood and Atlantic City?

It was also discovered that most casinos are all-inclusive entertainment centres, each casino a self-contained economic tool. Casinos in areas of tourism could increase tourism revenue if complementary services are provided. Therefore, the research indicates that to positively affect other community businesses, a casino should be just one of many entertainment activities available to attract tourists.

We need to consider: Is the government prepared to allow for casinos which are responsive and reflective of the communities in which they are based, or is it using a cookie-cutter approach with the same type and style? Since Niagara Falls has an established tourist economy, a different type of casino from the one proposed in Windsor may be best.

The employment impact was discovered through the research. If casinos open in seven suggested communities, 97,000 jobs could result: in Niagara Falls, 950 construction jobs, 8,700 full-time staff and 10,300 indirect staff. In Quebec, the Montreal casino will create 700 casino jobs and 1,100 indirect jobs. In Atlantic City, 12 casinos caused the development of 40,000 jobs. There was more construction, less unemployment and a higher annual income.

However, casinos did nothing for the chronically unemployed. In Deadwood, a university study found that casinos affected unemployment rates, dropping them down to a pre-recession level.

The research indicates that job opportunities may result. However, casinos should not be considered the cure-all to high or chronic unemployment.

The questions we need to consider are: Are there any assurances that Niagara Falls residents will be employed if the casinos open in Niagara Falls? Are there training programs available to those who are unemployed, especially those who are chronically unemployed, to learn the necessary skills to be employed by a casino?

Through research it was discovered that crime may increase because the population to be policed on a daily basis will increase. Reports by the Solicitor General of Canada indicate that wherever casinos are found, organized crime is sure to follow. Canada lacks strict

anti-laundering laws.

In Deadwood, crime has jumped 63% since gambling was introduced. In Atlantic City, there was a 2,000% increase in police calls and 171% in crime related to casinos. In Winnipeg, crime involving money-laundering and scams have taken place. However, the impact was not as dramatic as expected. Specific crimes reported as increasing are street crimes, traffic and parking, robbery, domestic violence, prostitution, alcohol-related, fraud and forgery.

The research indicates that increased population due to casinos has the potential to increase criminal activities in a community; additionally, casino-related crimes may appear.

Questions we need to consider are: Are there strategies in place to deal with casino crimes, such as legislation to deal with money-laundering? Will there be funds allocated from gambling proceeds to expand police services and training? Does our province have suitable legislation and law enforcement teams to deal with organized crime? Will our police forces receive specialized training to deal with and detect possible casino crimes?

Addiction: Through the research, it was discovered that 3% of the population is thought to be compulsive gamblers. This calculates to about 2,000 residents of Niagara Falls. In Manitoba, \$500,000 a year will be spent to treat pathological gamblers. The research indicates therefore that casinos have the potential to increase the number of those needing counselling for gambling addiction. We need to find out, will there be funds earmarked for addiction centres in the communities hosting a casino?

Other social impacts, through research, were discovered. In Deadwood, the small-town atmosphere was destroyed. In Atlantic City, there was a large increase in the transient population and homelessness. Little rejuvenation to the central business area happened. Research has indicated that there's a potential loss of a sense of community. We need to know, are there strategies in place to deal with negative impacts to the community, especially our vulnerable population, those prone to homelessness?

The impact of commercial casinos on charitable casino revenues will be dramatic, causing significant losses; 41 charitable organizations have applied for casino licences in Niagara Falls in 1993. The research indicates loss of revenue for local charitable casinos and other gaming fund-raisers once the commercial casino opens.

As both municipal and provincial funding have been reduced, many non-profit, charitable organizations have had to turn to fund-raising. Charitable casinos have offered non-profit organizations a simple and effective way to raise funds. What strategies are in place to

eliminate the impact of commercial casinos on fund-raising efforts? What means will be put into place to provide for those lost revenues to non-profits due to commercial casinos?

We also need to concern ourselves with some other questions. In Windsor, why did the government decide to contract out a commercial operator rather than let the casino be totally government-run and -staffed? Is there potential to open more than one casino in our community? Does the Ontario government plan to develop a gaming commission to oversee all aspects of gambling? Finally, the issue of casino gambling in Ontario has never been put to the vote, and why not?

Mr Meredith: In summary, the social planning council is neither supporting or obstructing casino gambling. We are simply presenting the pros and the cons. We would ask that you weigh each one very carefully, and you make the final decision. Casino gambling is a very emotionally charged issue. I personally do not support casino gambling. Karen, who presented the report, personally is in favour of casino gambling. I believe that the pros have been and will be presented quite properly and quite thoroughly today. However, please do not ignore, minimize or underestimate the negatives. They are substantial. Thank you.

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Mr McClelland: I simply want, without anything specific, to make a general comment. It's interesting that Karen, who is generally in favour, presented a number of the real issues and concerns. At the crux of this whole issue in the debate is understanding, to the extent we can, those issues as they relate to each community with the particular makeup of communities and putting in place the mechanisms to deal with it.

I think it wise, putting aside the debate for a moment and putting aside my own personal views, to recognize that the government has made a decision; therefore, it becomes a task for those of us charged with this responsibility to put those questions forward, to re-articulate them. But you have done such a good job in such a succinct manner, and I want to thank you for that. Those are the real issues that are driving this committee, in my view right now, to saying, "How can we minimize the downside, given the fact that the decisions have been made?"

I asked a question earlier about the jobs. It's not going to replace the manufacturing jobs; it's a different kind of job. One of the gentlemen suggested, "Use Jobs Ontario to train those people." The points you make are so very valid. Oft-times the jobs aren't replaced in the community; they're imported from elsewhere. By way of example, I wanted to touch on those.

Again, thank you for a very well-thought-out and very well-presented brief and presentation. I thank you for it.

Ms Stern: The staff has to take credit for that.

Mr Kwinter: Niagara Falls is absolutely unique almost in the world. Some of the things that the study refers to about the rise in property values will not happen in Niagara Falls. The reason for that is that Niagara Falls is the major tourist attraction in Canada. The values that have been attributed are there now because of that attraction, so if the casino goes in and we're talking whatever size it is, it's not going to affect property values because there's not going to be any benefit to being next to the casino with all that's going on in Niagara Falls now.

As I say, if the casino has to go anywhere, I really believe Niagara Falls is the perfect location for it because it has everything going for it. My only concern is that the spinoff benefits that are being attributed to this facility I think are unrealistic. I just want to explore that a little more. The Coopers and Lybrand report recommends that a facility the same size as that in Windsor be put here, and the people just before you said they were looking at about a 70,000-square-foot facility. The Coopers and Lybrand report calls for a 75,000-square-foot facility.

In Windsor, they projected there are going to be 12,000 people a day, which on a yearly basis, 365 days a year, is just over 4 million. If you assume that every single person who came to the casino came independently of coming to see Niagara Falls—which isn't true; it wouldn't happen, because the people who come here anyway will go to the casino—you would only have an increment of that 4 million people, which means you take it from 12 million to 16 million. I don't know where they figure they're going to get these 20-odd-million people coming as a result of the casino. That presupposes that every single person who comes to the casino is a new person who would not come to Niagara Falls, and I can tell you that with 12 million people a year in Niagara Falls, a good portion of those will come to the casino.

The report of the development commission says it doesn't really expect to see any change in that 12 million but that it will be an additional incentive, and I agree; I agree that there will be economic activity that will be enhanced; I agree with all of these things. My only concern is that there are financial benefits that are going to be attributed to this casino facility that are not going to be realized, particularly when you think of other casinos going in all over the place across the river and everywhere else.

What is your feeling about that? Do you feel that in your studies there is going to be this huge influx of additional people as a result of the casino?

Ms Rhonda Lambert: I'll answer that question. Actually, what we presented for you are facts, what we've seen from other reports and articles. We don't know whether that will happen; we have not studied it

in Niagara Falls; we are not sure what will happen. We're saying that through the research it has the potential to happen.

Mr Sterling: You outline a lot of questions about what will happen as a result of casinos coming into the Niagara area. If the casinos are restricted in area in this province, this government and future provincial governments face a dilemma.

First of all, the community is saying, "We want this for economic renewal." The problem is that if there are negative effects on the social fabric, welfare, policing etc, who should pay those costs? Should the rest of the province kick in or should it just be the communities that are asking the province for this economic benefit? In other words, in representing another area, if Ottawa asks for and gets a casino, in my view Ottawa should pay for the increased costs. Do you agree that Niagara Falls should pay for the increased costs if it is asking for a casino to be here?

Ms Julie Darnay: I think it's going to be a matter of what the issue is. There are certain jurisdictions the province has to its authority and which the municipality has to its. I think we're posing it back as a question to both the municipality and the province, have outlined very clearly what the considerations and the questions are, and I think that is something that we are recommending should be worked out, possibly in advance.

We feel that if many of these issues we have outlined are addressed in advance in a very proactive fashion, we are attempting to eliminate the problems when the casino does arrive. What we are very much, if anything, requesting in our presentation is some proactive planning so that many of the experiences that negatively influence in other communities can actually be eliminated from happening in Niagara Falls, in advance.

Mr Sterling: Listen, you people have been involved in social work and you're not naïve. Anyone who has read anything about casinos knows that there are additional problems to be dealt with. You've outlined them by posing the questions. The big problem in government is that we're creating a problem by creating casinos, in effect. Your community is saying: "The economic benefits are great. It's going to be the answer to revitalizing our community." What do we say to the rest of the Ontario taxpayers? Do they pay to resolve those problems? Or do the areas like Niagara, like Ottawa, like Windsor pay to solve those problems themselves? What's fairest?

Ms Darnay: I don't really know if the social planning council is the best body to answer that question or whether that is something that has to be negotiated between the municipality and the province. A cost-sharing and, as I had suggested, probably examining the jurisdiction of the issue and what has typically taken place in the past as to who has financially undertaken that area is probably where I would begin. I think it has

to be something that's negotiated between those two levels of government.

Mr Wayne Lessard (Windsor-Walkerville): I want to thank you very much for your presentation. I think the research is excellent and the canvassing of the issues is very exhaustive and concise and the most detailed of any of the briefs we've received since we've begun on this committee.

Usually, this is an opportunity for us to ask you questions, but you've posed a number of questions in your brief and I just wanted to respond to a couple of them.

You talked about land speculation in areas where casinos might be located, and I just wanted to indicate to you that one of the provisions of the bill, in the Windsor area, is to set the land value in the area of the casino specifically as at January 1, so that's something that's addressed that's in there.

You also talk about what happened in Deadwood and Atlantic City. I think part of the reason the land speculation took place is because there was an expectation that more casinos would be built. That's another question you posed: Could there be a possibility of further casinos in one city? The bill sets up a provincial corporation to run the casino, so for further casinos to be set up in one city it would mean that the corporation would be competing against itself, and that doesn't seem as though it would make a lot of sense to me.

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You also ask about making sure that local residents would be employed. That's another issue we've dealt with in the city of Windsor. There are training programs that have been established at St Clair College for dealing and for machine repair as well, and people are going through that training now so that there are people trained in our community who can take advantage of this opportunity.

You've raised a number of issues. They're issues we've been trying to deal with in Windsor and on this committee as well, but there are some that I think we still need to give some consideration to. I want to thank you for your presentation.

Mr Tony Martin (Sault Ste Marie): As everybody else has thanked you, I certainly want to do the same. It's very appropriate that you're here today. It's actually the first time we've had a social planning council come forward, and your views and understanding of the context within which this has to be situated in the community are very valuable.

We've made, very consciously, a decision to move forward with one pilot project, study it and to do that in a cautious and careful manner over a period of time so that we do the right things. I think Margaret initiated it in this city and I've done the same thing in Sault Ste Marie: The involvement of the social planning council

in looking at the larger question of the impact it will have in the community is really important in this. The information you will gather will certainly be valuable as we look at making decisions down the line as to where else we might want to initiate these projects. Certainly in my own community, we're wanting to do that and will.

As I looked at the lineup for today for Niagara Falls, I was saying to Margaret on the bus on the way in how impressed I was at the variety of people who were coming forward. We have the business community, which is very excited about this, and is in most of the communities we've been in. In this community, we have the labour council, which can speak to the questions of what kinds of jobs, how many jobs, how we can protect the interests of the worker, how we can retrain people. We have you coming forward, the social planning council, talking about the context. We have the church groups coming forward, obviously speaking about the moral issues that are certainly at stake here. All of that will be very valuable to all of us, and I think that's good.

I just wanted to ask you, in light of all of that and in light of the fact that certainly Niagara Falls has been very clearly targeted in a number of statements that first the government made and then Coopers and Lybrand made, of this community being a good location for a casino down the line, what plans do you have in mind for this community re the consultation process so that in the end you will be able to answer some of these questions and give to us the information we need to make good decisions?

Ms Darnay: I don't know if the report was designed so that these questions necessarily come back to the social planning council for our continued investigation. I think we've kind of posed them for a number of different parties to consider in the proactive planning of the casino for this area, but not necessarily that the social planning council would continue intensive research into this matter.

Mr Martin: Have you ever been involved in the issue of a new industry being set up in your area, to look at the social and environmental ramifications of that?

Ms Darnay: No, not typically.

Mr Martin: So this is a unique experience. I would suggest it's one that communities should look at more often. One of the planks in my platform when I ran for this job was that we should combine the social and the economic on more occasions so that we can see the full impact. You're saying, though, that in this instance you're not planning to be involved further, or would you like to be involved further?

Ms Darnay: Possibly Bill would like to address this, but I don't think the board has really been discussed or

confirmed that issue in any fashion.

Mr Meredith: That is correct. We actually have never discussed casino gambling per se as an agenda item. If we were asked by the appropriate body, we would have to consider whether we would give input.

The Chair: I thank the group representing the Social Planning Council of Niagara Falls for its presentation. The committee is recessed until 1 pm this afternoon.

The committee recessed from 1205 to 1307.

ONTARIO HOTEL AND MOTEL ASSOCIATION,
GREATER NIAGARA

The Chair: Our first presenter this afternoon is Margaret Mingle from Inn By The Falls Motel, representing Inn by the Falls and also the Ontario Hotel and Motel Association. You have 30 minutes to make your presentation and field questions from the committee.

Ms Margaret C. Mingle: Thank you very much. I have several hats I'm wearing, but right at the moment I'm representing the Ontario Hotel and Motel Association, greater Niagara, and the tourism and hospitality industry. Our family is in many aspects of the tourism and hospitality industry, including Inn By The Falls and Maple Leaf Village etc.

Thank you for giving me this opportunity to speak on behalf of the Ontario Hotel and Motel Association of greater Niagara and the hospitality and tourism industry on this important issues. We are a hospitality and tourism association with members in accommodation and food and beverage service throughout greater Niagara. The majority of these firms are small to medium-sized businesses that offer products, services and hospitality to the tourist.

Our association, along with all of the hospitality and tourism industry, strongly supports the establishment of fully operational casinos in Niagara that should offer a complete range of gaming activities including cards, dice, wheels and video lottery terminals.

Niagara Falls has the distinction of being a leader as a hospitality centre, with a name and reputation which is known worldwide. This well-established industry has operated continuously since long before Canada's Confederation. Our city has the largest and most well-established tourism market of any other community in Ontario. Tens of millions of inhabitants are in our target market area with a radius of at least 300 to 500 miles. Over 14 million persons per year enter Canada at the four border points along the Niagara River—one of the highest volumes of immigration points in Canada.

Niagara Falls is the best choice in Ontario to establish gaming casinos, as there are already established facilities in place and it has the experience that is necessary to host tens of thousands of visitors to our area. The accommodation sector in Niagara Falls has over 10,000 bedrooms available, which represents the largest percentage of rooms offered by a single community in Ontario.

The total throughout the province is 60,000 rooms. The number of bedrooms we have to offer far outnumbers those available in Toronto. Accommodations are available in all price ranges, with a wide selection of rooms. We offer full-service luxury hotels, charming and comfortable motels, and well-appointed campgrounds. Our numerous restaurants cater to a wide variety of tastes and price ranges. There are several interesting activities to keep visitors entertained which are provided by the amusement sector. A wide range of entertainment and recreation is available for all age groups and interests. We also have well-established facilities already suited to be casinos.

The hospitality and tourism industry has been especially devastated by the recession and competition in the world market. The cost of doing business has increased substantially, partly due to increases in wages and all types of taxes, yet revenues have decreased dramatically.

This industry is extremely labour-intensive and has traditionally been the largest employer in Niagara Falls. The community, along with the rest of the Niagara region, is in the unfortunate position of having one of the highest unemployment rates in Canada. This, of course, has had a severe impact on the local economy. The Niagara region has permanently lost a significant number of manufacturing positions due to high costs of labour, taxes and a poor economy. This leaves the hospitality and tourism industry with the responsibility of picking up the slack in order for the economy to recover in the region.

The vast majority of property taxes generated in Niagara Falls is derived from the tourist industry. The city also has the distinction of having one of the highest rates of arrears in property taxes in Ontario. Certainly, the amount of unpaid taxes is incomparable to other years in the city. The majority of tax arrears is from our industry, due to reduced revenue in tourism and thus an inability to pay. Niagara Falls is on market value assessment, which results in our being charged more than our fair share compared to other communities in the region. This also adds to our tax burden. In recent years the number of bankruptcies in tourism locally has been astoundingly high. This not only has had a tremendous impact on the local economy but has resulted in considerable amounts of unpaid taxes.

Tourism and hospitality, which is a service industry, is unable to stockpile its inventory to be sold at a later date, as is the case in manufacturing. When a bedroom is not sold or a meal not served, the revenue is for ever lost. When the incidence of these vacancies continues and the rate of them increases, the resulting loss of business can lead to more bankruptcies. Since many of these businesses are family-owned and -operated, this can result in a family losing a lifetime savings and investment.

Some people say that casino gambling will create a climate for growth of organized crime. There is no reason why this should occur. These types are only interested when there are high-stakes gambling, which attracts high rollers. I understand that the government does not intend to allow high-stakes gambling. We do, after all, have in place excellent laws. If our court system would exercise the laws that already exist, there would be no problem. Illegal gambling does exist in all societies, including our own. These situations provide a climate for organized crime.

There are also those who claim that legalized gambling would create addictions to gambling and cause numerous problems in our society. We already have lotteries, bingo and horse racing, which are legal, yet we do not see huge increases in this type of addiction. Addictions can take numerous forms and are not created by availability but occur when a person has an addictive personality and therefore can develop many addictions to situations or substances.

Casino gambling will provide a climate which will create thousands of jobs—not only jobs directly related to hospitality and tourism, but also in support and supply services in Niagara Falls and throughout the Niagara region. This would provide a tremendous economic benefit to the whole community.

We encourage the government to make plans immediately to allow casinos in Niagara Falls in order to help pull us out of this current economic quagmire.

Respectfully submitted, Margaret Mingle. Do you have any questions?

Mr Carr: Thank you for the presentation. I was interested, in your particular field, in the occupancy rate. Do you know what it is for Niagara Falls in the hotels, and what do you anticipate it being after the casino comes in?

Ms Mingle: I don't have any figures on occupancy rates. I know that they're down drastically. Last year, I heard quotes that they were down at least 40%. This year, the season's not finished, so you can't really do a correct statistical gathering in the middle of your season. You'll only know when the season is over as to how successful we've been or not been.

Mr Carr: In terms of the percentage, do you have any thoughts, if you get a casino, what percentage increase you will see, whether you'll see a 10% increase or 20%?

Ms Mingle: I expect to see an overwhelming increase, and I don't think anyone can truly predict anything like that because we don't really have any statistical basis to be able to make an accurate prediction, so I think it's almost anybody's guess. I do believe that it will stimulate business tremendously, and I do believe that that will certainly stimulate occupancy rates.

Mr Carr: The problem is, as you know, that one of the reasons governments sell communities is because of the jobs. I agree with some of the other members of the committee who say that governments are often optimistic in order to help sell it. You've heard some of the figures that have been bandied about in terms of increased jobs here in the community. Do you think that to be correct? Do you think it will be higher or lower?

Ms Mingle: I've read a lot of statistics, some of which have contradicted one another, and I don't have a great deal of faith in them, to be perfectly honest with you. I don't really have a great deal of confidence in those who are gathering these statistics. In terms of how many jobs will be generated, at this end of the game I really don't think anyone can accurately assess that.

Mr Carr: That's why I asked you, because I sometimes have more faith in people who have been involved in business and their statistics. So I appreciate your being honest and not saying—

Ms Mingle: I find that sometimes people who are involved in statistics can manipulate statistics incredibly, so I don't really have a great deal of faith in them. They're all right as a bit of a guideline but not as a basis for an argument, I don't think.

Mr Carr: The other question, and I'll just try to explain it very simply because I know there's not much time, is that in Windsor they say they're not going to put a hotel in, or they are but they're going to limit the amount of occupancy. One of the problems is that a lot of people in the casino industry say that unless you do it properly, have liquor at the tables, have a hotel where they can stay and have plenty of restaurants and real full service, you won't get the people to come back.

Ms Mingle: I agree with that.

Mr Carr: So you agree with that? How do you, then, help the local community? Do you still think that there'll be enough increase in the vacancy rate for people in the hotel industry, for example, to make it worthwhile if in fact the person who would benefit the greatest will be the person who gets the casino and the hotel complex? Do you still see enough spinoff jobs that people like where we are here today and yourself will be able to increase the occupancy rates?

Ms Mingle: I think so, because a community that I'm quite familiar with is the Bahamas, specifically Grand Bahama island and the Freeport Lucaya. It's a population of 45,000 people, and they have two casinos. It has certainly enhanced the entire economy of the community. They have very strict regulations in terms of who is able to gamble and the hours and so forth; very, very strict. But they do allow liquor to be served, and at no time have I ever seen anyone that's even the slightest bit inebriated. I have to tell you that honestly, and I've spent a great deal of time down there.

Will it enhance the entire community in terms of

occupancy? I don't see how it can help but do it, if you've done the right marketing, naturally. I mean, you have to look at the whole picture. You've got to look at the marketing that goes along with it, and you have to look at the kind of regulations that are going to be in place.

I don't wish to criticize Windsor, but they are not able to handle a city as a casino town. They have no means in place to accommodate people. We already have all of those things in place; Windsor does not have those things in place. If they don't get those things in place in a real hurry, they're going to end up with day-trippers. When they end up with day-trippers, they're going to burn their market out in less than a year, and then they're going to be crying the blues.

If you'll pardon me being frank about this, but it is my honest opinion, and I know I'm not the only one that has this opinion, I think that having the casinos in Windsor is a tremendous mistake because of the fact that Windsor is not equipped to serve tourists or people coming in; Niagara Falls is.

Mr Carr: Then why do you think the government would put it in Windsor, if it isn't set up?

Ms Mingle: How many stars are there in the sky? There are numerous reasons, aren't there? I think most of them have been political.

Mr Carr: Thank you very much, and good luck.

Ms Mingle: Thank you.

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Mr Sutherland: One of the presentations this morning said you get about 12 million tourists a year. With a casino, they weren't expecting a large increase in tourists but they were expecting some of those who come to stay longer, using as a basis a 1988 survey that indicated that most of the tourists here are day-trippers and don't stay more than seven hours.

I'm under the impression that most people, when they decide to go on a holiday or vacation, set aside a certain amount of money they're going to spend on their vacation, so how do you see a casino increasing the overall amount of money spent here? If they're going to be gambling in the casino, does that mean they're not going to be spending the money somewhere else in the community where they might be spending it now?

Ms Mingle: I don't think so. You said that when people go on a vacation they budget and say, "We have x number of dollars for a vacation," and they have lots of choices as to where the vacation's going to be. It is quite correct that most of our visitors at the present time are day-tripping, and day-trippers leave very little money in the community compared to what the potential is. Those people who have a desire to come to Niagara Falls will understand, through our promotion and their experience, that there are a lot of things to do here, so when they are budgeting for holidays, instead of going

to several other places perhaps what they will do is spend a little more time in Niagara Falls.

Mr Sutherland: By spending more time, they're going to spend more money, so you don't think the casino is simply going to be a shift of money here.

Ms Mingle: They have to eat, they have to sleep, they may buy a few souvenirs, they may take in the numerous attractions we have. There are lots of things for them to do while they're here.

Ms Harrington: Hello, Ms Mingle; good to have you here. I have two questions. The first is sort of a technical question. On page 1 you've said, "The number of bedrooms we have far outnumbers even those available in Toronto." I do spend some time in Toronto, and I have—

Ms Mingle: I know it sounds strange, but the statistics I have had through my hotel association is that Toronto has roughly 8,000 rooms and we have in excess of 10,000 rooms.

Ms Harrington: I'd like to check that out, because I certainly am always saying that Niagara Falls is the place for accommodation, for various things, and I have been told that no, there are a lot more hotels in Toronto.

Ms Mingle: I was surprised myself; I have to be honest with you. I assumed that because Toronto's such a large city and there are so many things going on that indeed it would have more rooms than we have, but that's not the case, apparently. They also have much more violence and crime in their community than we do.

Ms Harrington: People who come before this committee say there are various downsides of casino gambling, and we all know there are, that it can be addictive and can cause some bad influences. You and I are here in this community and believe in this community and want the best for this community. What would you say to those people who are very worried about downsides, that it will somehow change our way of life?

Ms Mingle: Could you be specific as to what downsides you're speaking of?

Ms Harrington: That it will have a negative influence on the people who are actually living here and raising a family.

Ms Mingle: If we assume that gambling casinos will have a negative influence, in what way do you mean? I'm not quite clear on your question.

Ms Harrington: There are people who will come before this committee who will say that this is not a good idea for a community, that it will have bad effects. I'm wondering what your reply would be to them.

Ms Mingle: I would say, "First, tell me what you think, where the pitfalls are, where the barriers are, where the problems are," and when you know what the

problems are you can address them. But if people just say, "I don't think it's going to be good for Niagara Falls to have casino gambling," that's not very specific. I would need them to tell me what areas they think we'll have problems in and then that could be addressed.

Ms Harrington: What you're saying is probably similar to what our government is saying, that there may be problems, so let's find out what they are and let's deal with them.

Ms Mingle: Absolutely. You must know the problem first.

Ms Harrington: One other question: You're on the tourism strategy committee that is meeting all summer and bringing in a report in September for the future of tourism across this province, and you're also aware that our government is now beginning the process of a huge gateway project for Niagara Falls. How do you see a casino fitting in with the gateway project?

Ms Mingle: Even though I've attended all the meetings available, I haven't seen the true picture yet in the gateway project; it's still at the idea stage. Where I'm attending the meetings, there's nothing structured yet, so to be able to see how casino gambling fits in—

Failure of sound system.

The Chair: It looks like we're back with power, so we'll just continue.

Ms Harrington: We left off with the future you're envisaging for Niagara Falls in your tourism strategy and with the gateway project.

Ms Mingle: The way our meetings are going, at this point in time there isn't a vision per se, in the strictest sense of the word. We are brainstorming, we're putting a lot of ideas together, and it won't be until some later point down the road that we will likely see where this is taking us all. At this point, none of us on the committee has a picture of the plans the government will have in place in terms of tourism and dealing with it.

In terms of Niagara Falls having gambling casinos, I really don't see why that should interfere in any way with whatever plans could be made in tourism. If you're going to make plans in tourism it's, how are we going to improve the market? We have moved down the market drastically. We used to be right on top and we're below 10th now, and economically that's very severe for us, as this town is tourism; there is no other industry.

In terms of how it could fit in with the plans the government is going to be putting in place, we'll just have to wait and see what happens in terms of those plans. We don't know yet what those plans will be; we don't have a structure yet.

Mr Kormos: I'm a little troubled, I suppose, by the very singular approach that's so often taken, not only by this government but classically by all governments. Isn't

really a whole lot of the problem not just the fact that there isn't legalized gambling but that, for instance, in the hospitality industry we still have an archaic approach to the way that distillers and breweries can market their product to taverns? Our beverage servers can never compete with stateside beverage servers because somehow we refuse to tolerate the phenomenon of wholesaling of liquor. We somehow refuse to bring ourselves into a modern era by permitting even, for instance, the oh-so-modest prospect of buying a bottle of wine and taking it to a restaurant and having it uncorked at the table.

I'm very enthusiastic about the hospitality industry in Niagara Falls because basically what's good for Niagara Falls is good for Welland-Thorold, St Catharines, Fort Erie, what have you. What I'm questioning, though, is to approach it merely by saying: "Somehow we're going to create a casino. We don't know how and why." It bothers me that the only surveying that's been done is of Ontario residents. I'm not interested in having the woman or man who works hard at GM taking their \$400 or \$500 paycheque to a casino and blowing it at the tables. I don't want recycled money from my neighbours in my community. If you want to bring me rich tourists from Europe, from Japan, from the United States, who are indeed capable, with that type of excess income, of blowing it at the table, well, my views might be a little different.

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My impression is that in view of the fact that the only studies that have been done are of Ontario consumers and not a single surveyor poll or focus group has been done of Europeans, of Americans or of Japanese, three large markets for Niagara Falls, to determine what they would want out of a casino operation, I'm a little bit troubled. I don't want to see my neighbour who's a factory worker or the neighbour over from him who's an unemployed factory worker grabbed by the ankles and have every last nickel and dime shaken out of him with the modest and false prospect of that grab at the brass ring, making it big at the table. Casinos are all about losing money, aren't they? They're not about winning money; they're all about losing money. What do you say to that? That's a pretty broad comment.

Ms Mingle: I have to agree with a great deal of what you've said. As far as surveys are concerned, I would say yes, I think we need worldwide surveys. I'm amazed that we stopped at simply surveying the people in Ontario, because that's not our market. That's never been the market of Niagara Falls, and it will not be the market for the gambling casinos. Like yourself, I don't want to see my neighbours burned out financially, because that's what could happen. It's not necessary and it's not economically feasible.

Surveys need to be done, of course, in the markets you're suggesting. Because of our years in the hospital-

ity industry, Niagara Falls knows where our markets are and we already have networks in place to reach out to those markets, so when we are doing our marketing we naturally would be adding casinos as a complement, as another service we have to offer. I dare say there will be a big thrust in that particular direction, but we already have a market in place and it's a matter of plugging into that market.

Our market is not Ontario; our market's not Canada. Our biggest market is 500 miles from where we're sitting right now in the US. That's our market, primarily. That's the market we will be patching into. We're not going to be patching into the guy who works at GM or Thorold Paper or what have you, because that's not going to make any money for anybody, including the government.

Mr Kormos: I tell you, the design that's been developed to date is to solicit specifically our local market.

Ms Mingle: I disagree. It shouldn't be that way.

Mr Kwinter: You are the president of the Greater Niagara Ontario Hotel and Motel Association. I think if you're going to put a casino anywhere in Canada, Niagara Falls is the best location; I believe that because of all of the things you've talked about. Where I have some concerns is what the economic benefits are going to be. In your capacity, could you tell me, do you anticipate any new hotels, motels or restaurants being built as a result of this casino initiative?

Ms Mingle: I would say probably yes. Not initially, not in the beginning; we'd have to feel our way. We already have huge vacancies so I don't think anyone's going to run out build a hotel tomorrow, but I think down the road very likely we could see an expansion in the industry here. It's quite possible.

Mr Kwinter: I discussed this earlier today. I just want to look at the numbers, because Niagara Falls is unique. It is the premier tourist destination in Canada. You get 12 million people a year. The casino, according to the studies that were done, is going to service 12,000 people a day. That works out to four million people a year, and of that four million, many of those will be in the 12 million that you're already getting; it's not an incremental number. I just can't understand, considering—what is the vacancy rate here now, approximately?

Ms Mingle: I don't know the current statistics because it's too early to tell, but I know that last year people felt the business was down 40%. In terms of occupancy, I can't give you a figure on that off the top of my head; I don't have a figure on occupancy rates.

Mr Kwinter: Would it be 50% occupancy? Is that too low?

Ms Mingle: I really am not prepared to say right now because I can't give you an accurate figure. I know it's down drastically.

Mr Kwinter: It would seem to me that it's got to be maximum 60%; if it's down 40% and if it was 100%, it would be 60%, and I don't believe it was 100%. I don't know what the number is; it doesn't matter. I'm just saying that there's probably a 50% vacancy rate in Niagara Falls. In order to double that occupancy, you'd require another 12 million visitors to get the right proportion of people who are going to stay overnight, because a lot of those are just day visitors. I don't know where those numbers are going to come from, because even if every single visitor to the casino was an incremental visitor, someone who wouldn't be here anyway, the max that you could get would be four million. But it's not going to be because a lot of those 12 million people who come here are going to frequent the casino.

My only concern is that projections are being made and anticipation is out there that this is going to be this huge bonanza, and I think it's going to be a bonanza for Niagara Falls. I think it's going to create employment, I think it's going to be an incremental adjunct to a tourist package, I think it's going to do all of those wonderful things, hopefully. But I don't think that it's going to have the economic impact that is being portrayed, that it's suddenly going to totally revitalize the Niagara Peninsula, it's going to be all of these wonderful things and it's going to create all of these jobs.

Another question I'd like to ask you, given that you're very much involved in the hospitality industry, it would seem to me that a premier tourist destination like Niagara Falls has got all of the infrastructure in place to service the tourist industry. You must pride yourself on the fact that you have that when you're selling this as a destination resort. What are you lacking in service?

Ms Mingle: That's a huge question.

Mr Kwinter: No, no. What I'm saying is what are you lacking to service a casino that you don't have now, that you would have to add in the way of infrastructure?

Ms Mingle: I'm not exactly sure if I quite understand that question. You mean, given that we have casinos, okay, then what would we need to do to be able to operate? Is that what you're saying?

Mr Kwinter: The operator will operate it. This will be given to an operator who will operate it, but one of the big benefits that is supposed to accrue to Windsor is that when this casino get into place, we're going to have all of these spinoff service industries to service that casino.

It would seem to me that Niagara Falls must have all of that, whatever it requires other than the operation of the casino itself, but whatever it requires to service that particular facility, foodservices, whatever, linen, all of those things that you use to service your industry now must be in place, and this thing isn't going to be

millions of feet, it's going to 75,000 square feet and it's going to have, according to the guidelines set out in Windsor, fairly modest hotel and restaurant facilities. The point I'm trying to get at is, does not Niagara Falls have all of the support services in place now to service a casino facility other than the actual running of it?

Ms Mingle: Absolutely, yes.

Mr Kwinter: So there's not going to be any benefit from that point of view, other than you're going to give employment to the people who are there.

Ms Mingle: Yes, we do have the services and the facilities in place, but because of the economic difficulties that we find not only in the industry but in the community at large and what have you, a lot of those places are not operating at 100% capacity, even the suppliers and the services and the related businesses, people we purchase from and what have you.

If casinos were established, demands would increase, and therefore we would then be calling upon more demands. We would require more staff, we'd require more sheets and pillowcases and meals and whatever, so we're going to be making a lot more demands on those related industries than we are right this minute. A lot of them have gone out of business or are just barely getting by because of the fact that the business has really evaporated.

Mr Kwinter: I think that's one of the pluses, that it's going to utilize the infrastructure that is here and is going to bring it up to a point where some of these may become viable when they're not viable now.

Ms Mingle: Absolutely, yes, so it can be operating at full capacity. We don't have to reinvent the wheel. We've got the facilities, we've got the system in place. We're just going to be able to make it better.

The Chair: Ms Mingle, thank you very much for presenting before the committee this afternoon.

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FIRST BAPTIST CHURCH, BRANTFORD

BAPTIST CONVENTION OF ONTARIO AND QUEBEC

The Chair: Our next presenter is Douglas K. Summerhayes. Welcome to the committee, Mr Summerhayes and Rev Owen Burey. You have 30 minutes to make your presentation and field questions from the committee members.

Mr Douglas K. Summerhayes: Thank you very much for the opportunity to appear before this committee. Rev Burey has joined me. Originally this was to be a personal presentation because of my concerns on the moral, ethical and social issues involved with casino gambling and in fact all gambling. When I started to prepare my presentation, Rev Burey and the Baptist Convention of Ontario and Quebec supplied much information and chose to participate with me. Rev Burey is co-chair of the social concerns committee of the Baptist Convention.

My brief has been presented in two parts. The first part deals with the concerns of the Baptist denomination and the Christian community. The second part I think deals directly with the concerns that I have out of a letter received from the Premier of Ontario, the Honourable Bob Rae.

In the first part, the Baptist Convention of Ontario and Quebec meeting in annual assembly at Niagara Falls, Ontario, in June of this year passed the following resolution:

"Whereas casino gambling can be a regressive tax on the poor and almost always is a magnet, attracting and abetting an increase in crime; and

"Whereas the delegates, meeting in the annual Assembly of the Baptist Convention of Ontario and Quebec, this year (1993) in Niagara Falls"—in this room—"deeply regret the decision of the provincial government both to permit casino gambling in Ontario and to locate such a gambling outlet in Windsor;

"Therefore, be it resolved that we, the delegates, strongly urge the government of Ontario to rescind its decision to permit casino gambling in this province."

The gambling resolution was occasioned by the plans of the Ontario government to locate a gambling casino in Windsor. Social concerns chair Neil Hunter of Ottawa described gambling and the crime that accompanies it as "pervasive, insidious and destructive to individuals and family life." Committee member and Windsor pastor Owen Burey cited his own consultation with the Windsor police who, Mr Burey said, told him that the size of the planned casino meant that there is no way they can control the crime and violence that will come with gambling. I will allow time for Rev Burey to address this issue when I complete my presentation.

We believe that gambling is a parasite on public morals. I personally believe that it is a corruption of public morals. Games of chance seem to pervade every society and intrigue all. The idea of taking a chance and getting something for nothing has universal appeal. Human potential can never be realized without risk. I recognize this and I'm a good example. I'm probably one of the biggest gamblers there is in this country, but all my gambles have been to do with businesses, many of which have not been as successful as I would've liked. At least I was trying to provide employment for others. Business risk provides opportunity and jobs for others, not just personal gain. Casino gambling only provides personal gain, if you happen to be one of the very small percentage of lucky persons who makes the big score.

In gambling, casino or lottery gambling—and I also put in bingos there—the willingness to take risk is twisted by the desire to get something for nothing. Gambling is then a sin of perverted stewardship of your personal income. It is a parasitic approach, producing no

personal growth, achieving no social good. Even the strongest advocates of gambling agree that gambling is a non-productive human activity. It must be justified either by its entertainment value or by the use of its revenues for worthy purposes. But can the latter even be morally or ethically justified for a government to use gambling for revenue purposes?

Social gambling emphasizes the entertainment value of games of chance. By legal definition, this means that the participants enter the game on equal terms. There is neither a professional operator nor a house cut against which the participants have to compete. Well, this is not the case in casino gambling. Casino gambling is a business and it's run by professionals and therefore, I feel, is not really a social activity.

Gambling in charitable and non-profit institutions is indefensible. Advocates of church bingo oppose lotteries on the ground that government should not use gambling as a substitute for responsible tax reforms. We maintain that it is even less defensible for the church or other charities to use gambling as a substitute for responsible stewardship and fund-raising.

Professional gambling is a step up from social gambling. This kind of gambling is big business and worth the risk of gambling speculators and the Mafia, organized crime.

Should the government create a gambling climate? I say the answer is emphatically no. The implications are far-reaching. Public morality, public safety and respect for the law suddenly become issues that cannot be avoided. A gambling attitude does affect the quality of life.

What conclusions can be drawn to guide the position of a Christian or someone with moral values on gambling? First, gambling is a vice that violates the principle of Christian stewardship. I think we have to examine our own views on whether we want to support that type of vice.

Second, if social gambling is inevitable, controls should be demanded to limit crime, corruption and cheating and also family social upheaval.

Third, professional gambling should be vigorously opposed by practical as well as moral arguments and, I think, ethical arguments as well. No system of controls can cope with the efficiency and subtlety of organized crime or with its daring. All we have to do is look at the fact that Canada, the United States and, as a matter of fact, all countries in the world, are losing the war against drugs and the drug problem.

Ontario and Canada cannot control cigarette smuggling, yet there supposedly are controls through the borders and the police. I think a prime example is what happened during Prohibition. The smuggling of booze across the lakes and the rivers to the United States was so pervasive that they ultimately had to give up Prohibi-

tion. I think we should look at these things.

Fourth, government lotteries are a questionable means for controlling crime or producing state revenue. I do not believe governments can in any way control or regulate casinos adequately.

1350

I have lost my timidity about speaking from my convictions as a citizen and as a Christian, and I used to be timid. Many people seem to be waiting for someone to speak with moral conviction. I decided to try. I hope right-thinking Christian members of the Legislature will do the same.

In April 1992, when the government of Ontario first proposed gambling in its white paper, the board of deacons of the First Baptist Church sent a letter to the Honourable Bob Rae, Premier of Ontario, and to Mr Brad Ward, MPP for Brantford. We received a reply from Mr Rae. In the reply he made this statement:

"Casinos will help border communities stimulate tourism and create jobs and generate new government revenues to address pressing social needs. The decision to establish casinos is being followed up by a task group within the Ministry of Consumer and Commercial Relations. The ministry is also talking to first nations, charitable organizations, members of the province's horse breeding and racing industry and to the public to ensure that all concerns are addressed. By careful planning we are confident we can balance the risks with the direct social benefits of this activity."

This is a direct quote from his letter, and I would like to examine this in four sections.

"Casinos will help border communities stimulate tourism and create jobs." Will it? How many jobs, in real terms, will be created by the introduction of casinos? I've heard here today 1.3 jobs for every casino job. Well, this pales in comparison to the fact that if the same amounts of money, whether they be public or private, were spent on development of industrial and commercial operations, the ratio is four to six jobs to every job created in industry. That comes from the CMA. To me, this is not the best means of creating jobs, by providing casinos.

The majority of people attending the casinos will come, I contend, from a radius not exceeding 100 miles of the community in which they are located. Therefore, if my assumption is correct, most of the gamblers will be making same-day trips to gamble. Where is the benefit to the community if this is the case? The hotels aren't going to be filled. The casinos will likely have their own food and drink facilities, so the bars and the restaurants won't benefit. Certainly there won't be any time, let alone money, for those visitors to visit the stores. I think it's very questionable how many would be employed from the existing pool of local unemployed workers. I think the majority of the jobs, particu-

larly the higher-paying jobs, the dealers and so on, would be brought in, especially if you're going with private operators. Therefore, the only benefits would accrue to the casino operators.

A good analogy: The cities proposing this or looking for casinos are saying, "This is going to be the salvation of our unemployment problem and our tax problems"; a cash cow was the term used here today. All I ask you to do is look at what has happened to communities where 15 or 20 years ago everybody was saying, "If we could only build the shopping malls that are being built on the outskirts of the cities, it will be the salvation of our merchants." Brantford did this 10 to 12 years ago. Do you know what the result is? Today our main street is virtually a ghost town; there are more vacant stores today than there have been in the history of the city of Brantford. I think it's a very good analogy.

Second, is there a better way of creating tourism that will appeal to families, providing for longer visits to the community? I believe there is. I contend that money spent on educational tourist attractions that are family-oriented will provide a greater potential for employment of students and those on local unemployment rolls and greater business for the hotels and restaurants and stores than will gambling, because the people who bring families do come for sightseeing and they do go shopping.

I think the gentleman from TNT, although he didn't know it and I can't quote it chapter and verse, made a statement this morning—I wish I had the Hansard read-back right now—that justified this. He gave figures of income to Niagara Falls right now. I don't think those are going to substantially change for the local business.

In the absence of hard, provable statistics, I contend that the moneys paid into the gambling casinos compared to what's going to come out the other end to the government or to the charities is going to be an unacceptable ratio. I have not been able to get any bingo hall people to tell me, of the dollars spent in the bingo hall, what percentage actually goes directly to the charities. I have not been able to get any statistics on what percentage of the lottery dollars actually goes towards the infrastructure for the community that supposedly benefits. But based on some information I had when I was involved with the Canadian Cystic Fibrosis Foundation and we were looking at various ways of raising money and went to bingos and so on, we reached the conclusion that less than 25% of the dollars spent by the patron is returned to the charity or to the government. That means that over 75% goes to operations and prizes. I believe this is an unacceptable ratio, and I think it would be even more out of balance with casinos.

1400

Regarding the "pressing social needs," we suggest that any increase in compulsive gambling will increase the social need through increased reliance on social

assistance by the gamblers and their families for addiction treatment and welfare support for families. Addictive personalities have been proven to be cross-addictive. We believe those addicted to alcohol and drugs will turn to gambling for the quick score in order to support this addiction. Moreover, the patrons at the casinos are more likely to indulge in consuming alcoholic beverages and turn to drugs such as amphetamines or uppers to keep them awake and for stimulation, to stay awake to gamble a longer period of time; therefore, we believe they will become more prone to addiction. Therefore, any moneys raised by the government or most of the moneys raised by the government, ultimately, over the long term, will be a reducing benefit to the government.

"The decision to establish casinos is being followed up by a task group within the Ministry of Consumer and Commercial Relations. The ministry is also talking to first nations, charitable organizations, members of the horse breeding and racing industry and to the public to ensure that all possible concerns are addressed."

A question arises from this statement: Is less than 12 months adequate time to properly study all of the social, financial, legal and policing ramifications related to casino gambling?

It appears from the newspaper reports that discussions with the first nations people, charitable organizations and others interested, as stated above, including the general public, have been sparse. What has been held has been less than fruitful because it would appear that most of the organizations either have not been contacted or their concerns have been dismissed as irrelevant. I refer to an article in the Brantford Expositor that was reporting on Windsor where the first nations people were stating that they had not had very many meetings and that what they had had were most unsatisfactory.

"By careful planning we are confident we can balance the risks with the direct social benefits." That's what Premier Rae said. The question arises: Should the government mandate be balancing the risk of increasing social misery by introducing a highly addictive form of gambling against any questionable social benefit that may result?

We believe it is morally reprehensible that our government would purposely inflict financial, mental and social misery on any of its citizens for the sole purpose of increasing the income of the provincial treasury. This is particularly true when the amount of gain to the province is questionable when related to the financial and social costs to the individual. The vast amounts of money that the operators of the casinos will receive make the value and moral correctness of this venture even more questionable.

It seems strange that the hearings of this standing committee are being held in only five communities across Ontario. These happen to be communities

considered as prime tourist areas and/or border communities most often mentioned as sites or possible sites for casinos. This has substantially reduced or eliminated the opportunity for a very large segment of the population of Ontario making their views known through personal submissions or input into the public process. Many of us have had to travel long distances in order to make presentations if we chose to, and I think that's a deterrent.

In closing, we ask every member of the Legislature to search his or her conscience and ask themselves if this is the legacy they wish to leave for their children and the children who will become the future adult citizens of this province. Will you be proud of the probability that they will be saddled with increased social and financial responsibilities if this goes through, brought on by your decision to support casino gambling as an expedient method to solve your government's short-term financial problems today?

If your decision is to support the implementation of casino gambling, then we implore you to take more time in doing so in order that reasonable precautionary protections against the negative impact on the future citizens of Ontario may be fully considered. The burgeoning social and financial problems that will surely evolve as increasing numbers of casinos are opened in more communities across the province is an ethically abhorrent legacy to leave our children. This is my belief, my belief as a Christian, and I think other religious denominations will share this belief.

I respectfully submit this for your consideration, and I would ask, if I might, whether Reverend Burey might just speak to the issue of policing, which I did not touch on, because he has had a direct conversation with the Windsor police.

The Chair: I just want to let you know that you have less than five minutes left in your presentation.

Rev Owen Burey: All I wanted to say is that I think this committee was in Windsor last week and heard the presentation by Chief Adkin. I am in constant consultation with him, as one who has worked in the area of corrections, with respect to what effect it will have on our city. I do not need to repeat what the chief has said, except that the size of the casino they thought of in the beginning is about double, and unless we have the police services and the personnel that are necessary, we are in serious problems with this casino in the city of Windsor.

My task down there is to say to the churches that I'm hearing from a lot of people that this is a done deal. That might be so, but we have to look at both sides of the coin to see what the benefits are that are coming to the city of Windsor and indeed to the citizens of Canada in this casino.

As a father of six children, I often told my children,

"Count the cost, and if it's too expensive, don't buy it." I really feel that this is becoming too expensive for not only the city of Windsor but for the citizens of Ontario. We should look at both sides of the coin, what we have to gain and what we have to suffer from crime and the other things that come with the casino that will come to the city of Windsor. I would just ask that we don't put on blinders and say, "These are the benefits we are going to gain," but look at the other side as well and prepare ourselves, as a church community and as citizens of Windsor and Canada; I think I heard Mr Sterling mention that this morning. Take a realistic look. Forget the partisan thing and take a realistic look at what we have before us. That is all I ask.

The Chair: Thank you very much, Mr Summerhayes and Reverend Burey.

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CHAMBER OF COMMERCE,
NIAGARA FALLS, CANADA

NIAGARA FALLS, CANADA,
VISITOR AND CONVENTION BUREAU

The Chair: Our next presenters are Allen Gandell, representing the Niagara Falls Chamber of Commerce, and Amy Bignucolo, president of the visitor and convention bureau.

Mr Allen Gandell: Do you want to take a break first?

The Chair: Actually, we're a little behind schedule right now, so whenever you're comfortable, please proceed.

Mr Gandell: Thank you very much; we appreciate the opportunity. We had a little poll at the chamber and figured that the odds that our cogent and lucid argument is going to absolutely make your mind up for you were 357 to 1, but there was absolutely no betting that went on, I assure you.

I'm here representing the chamber, and I have the pleasure also of having with me Ms Amy Bignucolo, president of the Niagara Falls, Canada, Convention and Visitor Bureau which, as you know, is responsible for the tourism aspect of Niagara Falls. The tourism industry is an integral and important part of the chamber, and we have been very pleased to have Amy present with us and she is going to make the first presentation. I'd like to present Amy Bignucolo to you.

Ms Amy Bignucolo: I will be brief. I just want to welcome you all to—I wrote it down—the world's most famous address, Niagara Falls. The Niagara Falls, Canada, Visitor and Convention Bureau welcomes the opportunity of giving input to Bill 8, the Ontario Casino Corporation Act, 1993.

It is our position that the existing legislation of Bill 8 is too narrow and binding in focus. As it presently stands, the legislation restricts the establishment of a casino in Ontario to the city of Windsor. The rationale

used by this government is that Windsor will be used as a pilot project for casino gambling and that this experience will guide future growth and development of casinos in Ontario.

The bureau disagrees with this reasoning. We in Niagara have great reason to believe that the Windsor experience will vary greatly from one that would be experienced in Niagara Falls.

My colleagues today will expertly expand on the economic impact and job creation value of such a project, and the recent report of August 12, 1993, done by your consultants further reinforces this theme.

The bureau's intent is to assist you in recognizing that Niagara Falls already has a well-established market position which attracts 10.9 million visitors annually. It already has an infrastructure in place to handle and facilitate large volumes of visitors.

In a recent background report released by the government, called *An Overview of North American and Canadian Context*, and this is in relation to the casinos, it stated:

"The government has planned a casino that will encourage visitors to enjoy all that Canada's most southerly city has to offer." This is referring to Windsor. "By this I mean fine restaurants, hotels, entertainment and shopping, its culture and heritage, its scenic riverfront and parklands, its many events and attractions."

It sounds so familiar.

Our city of 74,000 people already has 9,500 hotel and motel rooms, 2,000 campsites, 15,000 restaurant seats, 50 various attractions, of which five are major, 200 taxicabs, 50 sightseeing buses, 65 specialty gift shops, 10 currency exchanges and 17 banks that offer money services. We also have a transit system in place that shuttles people throughout the city and the Niagara parks and we are also home to Niagara College, which trains and offers courses in hospitality and tourism. Furthermore, we have the Niagara region, which offers equally diverse and exceptional tourism experiences. As you can see, the tourism plant in Niagara is already geared to accept new developments, and Niagara Falls does require a stimulant, such as casino gambling, to revitalize the existing infrastructure.

To further emphasize the market appeal of Niagara Falls, I quote from the economic impact study of 1988, which states:

"Niagara Falls is one of the most substantial tourist attractions in North America. As indicated, a total of 10.9 million person-trips forecast for Niagara Falls is similar to that experienced by Orlando, Florida, the home of Disney World, which receives some 10 million overnight person-trips per year. The major difference between Orlando and Niagara Falls is the length of stay of visitors. In Orlando, some 90% of visitors stay

overnight and the average length of stay of overnight visitors is just under six nights. In Niagara Falls, only 30% of visitors stay overnight and the average length of stay of overnight visitors is 1.5 nights. The level of development and economic activity generated by tourist activity in Orlando is, consequently, far greater than that generated by a similar number of visitors to Niagara Falls."

It is the contention of the bureau that the addition of a casino would complement and enhance the existing infrastructure by furthering the goals stated in the economic impact study: to increase length of visitation, which will consequently create an increased economic impact.

Therefore, the Niagara Falls, Canada, Visitor and Convention Bureau respectfully requests that consideration be given in amending Bill 8 to allow one government-regulated casino in the city of Niagara Falls. Thank you for allowing me the opportunity of speaking.

Mr Gandell: We have handed out to you the official position of the chamber, which is before you. I'm not going to read from it except to summarize it as briefly as possible, in that it recognizes the potential effects and ramifications of casino gambling, which must be addressed, but recognizes and notes that they are things we can deal with, that we can plan for and that we can adapt our services to cope with and still recognize that there will be an overwhelming positive economic benefit and a revenue-positive result, even in the most draconian of circumstances. I suspect our position is probably fairly similar to that of the Ontario chamber and thus will not go into that in detail. I also suspect you've heard enough arguments and have your own studies which deal with the specific economic impacts, and I don't think there are many people today who are suggesting that the revenue possibilities are not quite enormous or that that is a point of debate at this point in time.

What I'd really rather do at this point is reflect the point of view of our particular chamber in Niagara Falls, in that I've tried to gather together some of the thoughts I've heard around our discussion table during all the meetings we've held to discuss casino gambling, some of which are perhaps a little different from what's been heard to date.

First of all, I think there is probably universal familiarity with the old fairy tale about the emperor's new clothes, where everybody was convinced that the emperor had new clothes when indeed he had none, and until somebody had the courage to note that was not indeed the case, everybody else went along with it.

I think we have two bifurcated opinions where a lot of that is happening. There are some pros who don't recognize that we will indeed have to deal with some potential problems, and the cons are also I think similarly sticking their head in the sand and not recognizing

today's realities despite the fact that it sits right in front of them, including in their own bingo halls. I don't believe one can draw that kind of fine distinctive line between one type of gambling and another.

I also wish to state that the chamber does not believe, as some people have purported, that this is any solution to short-term financial problems. First, it's not the solution but perhaps a contributing factor, and second, anyone who believes that our financial problems in the province of Ontario or in Niagara Falls are short-term is in for a rude surprise, because they are indeed not short-term and we must do everything we can to handle them in the long term, and this is one positive contributing factor because it simply expands what already exists.

You can select examples of good and bad in any industry. I can take you to places and show you manufacturing industries that pollute the environment, that are bad corporate citizens, and you would thus have to conclude that you do not want manufacturing industries in your province. Obviously, that's a specious argument. I can also show you good corporate manufacturing citizens who indicate that that's all you might want. There is not a service industry or manufacturing industry anywhere of which you cannot garner good and bad examples, and casino gambling is no different.

Therefore, the obvious conclusion is that it depends who does it, how you do it, under what circumstances you do it and, in many cases, where you do it. These are all important factors in what you are doing.

As far as the moral turpitude and decay of values, again, that in itself is a specious and self-defeating argument, for the same reasons of being able to show the same things with any type of gambling and with many types of different activities unrelated to gambling.

What we're really talking about is that I can go any weekend and sometimes during the week and I can play blackjack and gamble in Niagara Falls. I can do that today, we've been able to do that for some time now, it's been there, and the facts do not bear out that there have been any ill or adverse effects to that to date.

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But what we're really talking about also is Niagara Falls. You'll forgive us, but I think that's our main interest, more important than the general principle, because we believe it to be a fait accompli and I don't think it's very productive for anybody to sit down at this point and argue about something that's been decided to at least be run as a trial or a pilot project.

Amy has done a terrific job of describing why we are so prepared to handle it. Let me assure you that there are no people in Niagara Falls who think this is the salvation of our problems: This is one more attraction, one more way to keep people in town longer, to have them spend more money. The important thing to realize about the entire pointed effort in Niagara Falls is that

we are after foreign dollars, more so than any location you could name in the entire country, never mind in the province of Ontario. It was extremely gratifying to see that the casinos that have been running to date have been dominated by participants from outside the province and that the dollars that have been garnered have been primarily coming from outside the province.

A lot of people will say, "Gee, you're going to destroy those casinos and you're going to destroy some of the other fund-raising efforts." Personally, I think you'll find that the casinos that have been running were a fabulous mini-experiment, perhaps, and gave a lot of people experience in what has been happening, but I also think the facts will bear out that a very select few have benefited from this type of casino. These types of activities essentially are not all that different from the Monte Carlo nights that most people have been offering to date, which they can still do under the existing legislation, as I understand.

As far as the service clubs are concerned, they have not been benefiting extraordinarily from the money from these casinos. That is a fact. Many of them, as a matter of fact, have backed away from even running them because of the phenomenon, as I've described, that the select few who run them professionally make the money and the others don't. That's the thing that is going to cause you to make the jump from that type of system to one where the people who run it ensure that the dollars go to the province of Ontario and not to a certain limited few.

One thing this is, is to raise money. Nobody would dare argue with that. I hope nobody would argue with the fact that if you're involved in an endeavour to raise money it's a business, and if it's a business you're going to run it like a business. I've tried very hard to imagine any type of cogent argument to belie that simple statement and I've been unable to do it. Therefore, if you accept that you're going to be running a business, you'd better do it the right way; you'd better put it in the right place. Everybody knows the old joke about property. "What are the three most important things when you buy property?: Location, location, location." It's the same thing with a business that has a particular market niche, and the market niche we have is foreign dollars. There is no better place to put it, there is no place that will get it so quickly and there is no place where the market is at your doorstep waiting for the product to arrive. If there ever was a golden opportunity, this is it.

Another thing Amy did was to describe beautifully not only the infrastructure we have but the reputation and repute that this city has worldwide. If any of you care to just take a stroll, at lunchtime or in the evening, around some of our tourist attractions, you will see visitors from all over the world. You'll see an ever-increasing, growing and wonderful influx of visitors

from the Far East and from Europe. Those are our potential clients as much as anybody.

But the other thing you must realize is that a business competes. You know there will be casinos across the border eventually. The examples that the native Americans have been setting in New York state are well established. They're there, they exist, they're going to continue to proliferate, and therefore you have to be ready to compete and take advantage of every competitive advantage we have, and this is where the competitive advantage is. It's simply adding another piece to the puzzle which is already forming the most beautiful picture in North America. If you throw that opportunity away, it is criminal. It is, in the business parlance, criminal negligence. It's too damned obvious.

We must compete, as a city, with other cities. You compete for industry; you compete to attract people. That's a fact of life we deal with. We also have to compete in tourism. Niagara Falls is no longer the place where you just hang up the shingle and people arrive. Our marketing concepts are no longer to turn on the "No Vacancy" sign. That doesn't work any more; we all wish it did, perhaps, but it doesn't. We're fighting for our lives and competing as strongly and as heavily as any other industry in the world, and every single government study of tourism has shown that to be the fact. This is another tool we need to compete on an even playing field. Your own studies have been remarkably astute in outlining not only all the tourist areas where casinos are being put in and it's already been decided but the others where it's a *fait accompli* and it's just a matter of time before it comes. We need that additional tool to compete.

Finally, if you're going to compete in running that business, remember something: You can get on a plane here and fly to Atlantic City for \$98. You can drive to Atlantic City for what it costs to fill up a tank and a half of gas. Let nobody think that the person who wants to gamble does not have affordable selection. There is not a wage earner who does not have it within his means to travel to three, four or five locations that exist today to gamble, and believe me, a tank of gas or a \$96 air fare is not going to stop the inveterate or incorrigible or social gambler in any way.

But study your market. Just as tourism realizes that we can't have tourism without shopping because that's an important consideration, Las Vegas, Reno and Tahoe realize you can't have gambling now without family atmosphere; it's become a family activity. Those of you who have been there have seen them constructing massive theme parks and amusement parks because they can't even get by on gambling alone any more. Everything is a synergistic combination of elements that is modernizing itself to meet today's popular demand.

In short, the opportunity is there, the selection and the location are begging you to recognize the obvious. As

to the unemployed and the social service money you need, here's another way to deal with it. We issue a challenge to the naysayers to look at Winnipeg, to look at all the locations. Don't be selective; as I said, you can find good and bad in any industry, including even the service industries. Don't be selective; look at the actual facts. As I heard a gentleman say before, if it costs too much, don't buy it. You can't afford not to buy this one; you cannot afford it and neither can the people of Niagara Falls.

We know that sooner or later you're going to make the right decision and we look forward to that. On behalf of the city, please accept our thanks for listening so attentively. Thank you very much.

Mr Duignan: Thank you for making your presentation in front of the committee this afternoon. I just want to clarify the situation around Bill 8. I know I did it this morning, but there are a lot of people here this afternoon so I'll repeat what I said this morning, that Bill 8 is not a Windsor casino bill; Bill 8 is an enabling piece of legislation that allows the Ontario Casino Corp to establish casinos in the province of Ontario. That's set out in section 2, which establishes the corporation, and the objects of the corporation in section 4, especially clause (c), states, "To provide for the operation of casinos."

I know the mayor raised some issues around part II of the bill. I understand he's going to share his legal opinion with us, and we'll take a look at that. But rest assured that this is an enabling piece of legislation to establish casinos in the province of Ontario.

Mr Gandell: Understood. Thank you for the correction.

Ms Harrington: Thank you very much. I'm really glad you got on, Amy. I know you were on the waiting list, and thank you, Allen, for accommodating the VCB.

First of all, we were talking about adverse effects there for a while. When I visited a casino, and that was just this past Monday, I saw people, who would have been unemployed, there working and really contributing, some people who had never had jobs before. So you're actually helping the community, solving social problems by giving people jobs, in some cases anyway.

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But you are right on when you talk about foreign currency and that Niagara Falls is an obvious choice. The way I see it, and I think everyone should, Niagara Falls is not the same as any other place in Ontario. It is unquestionably an international destination, and we have the foreign visitors right here. What I don't want to see is that, if there are saturation casinos all across Ontario, we are only recycling Ontario dollars which could be going to some other business. I would like to see those dollars coming from outside Ontario, and I think that's the way it works best.

To really make this happen and to work well I think we've got to have two things. First of all, we've got to have the backing of most of the citizens of this city, and I'd like to ask you how you might envisage doing that. Secondly, this government believes it must do it right, and to do that you must have a pilot project and evaluate it. Those are the two things, that we have got to do right and that we've got to have the people with us. How do we get our Niagara Falls people with us?

Mr Gandell: I'll have to be really mean and say that I don't believe the presumption that you have to have a pilot project in Windsor; let's just say we beg to differ on that, strictly because of location. You can't compare a non-infrastructure location with an infrastructure location of this type. Windsor doesn't have the foreign visitation; Niagara Falls does. I think the best way to answer your question generally, from our point of view, is simply that a business that does not offer what the market wants is not long for this world.

I don't think there is serious difficulty in seeing where the successful locations are and what types of services and setups they have. We acknowledge 100% that controls by the government must be fairly stiff; nobody wants to allow the slightest possibility of any non-desirable elements finding their way into this. Some people say it's inevitable; we think only incompetence will make it inevitable and we don't think that's a given at all.

Basically, just compete with the types of services and the type of setup they have. If you're going to have a single casino, make sure it's first-class and make sure it operates the same way that successful casinos operate.

Ms Harrington: How do we get our folks with us on this?

The Chair: I'm sorry, we have to stop there and go on to the Liberal caucus; time is running short.

Mr McClelland: I want to refer very quickly to a letter you've provided us with, dated February 2, 1993. It was to the Honourable Marilyn Churley. In that letter you asked the question in paragraph 2 about why the city of Niagara Falls was not selected as the best area to test such a project. You then set out in a very cogent fashion the rationale. Your concluding paragraph is, "The city looks forward to a favourable response." I'm wondering what response you received, if any. If not, maybe our good friends in government can tell us why not. Did you receive a response to the February 2 letter?

Mr Gandell: It's my understanding that we did receive a letter. I wish Mr Gandy were here; his memory would certainly serve to refresh mine. I do not totally recollect the details of the response, but I think I can safely categorize it as evasive.

Mr McClelland: Have you asked for or received the opportunity to meet with the minister or representatives of the minister or ministry?

Mr Gandell: It is my understanding that we have met through the Ontario chamber only, not through the Niagara Falls chamber. I stand to be corrected, Margaret, if you know something that I'm not aware of.

Interjection.

Mr Kwinter: Thank you very much for your presentation. I agree with a lot of what you said. One of the concerns that I have, particularly in the presentation of the visitor and convention bureau, is the comparison between Orlando and Niagara Falls. The numbers are the same, but the situation is totally different. The people who go to Orlando go to Orlando because there's nothing else there other than Disney World, unless you're into oranges. That is really the reason you go to Orlando, and it costs you money to get there, and the people plan a vacation. They take all the kids, and they say, "We're going to go to Disney World and we're going to spend four, five, six days," and they do that.

The people who come to Niagara Falls come primarily to see Niagara Falls. I would say that's the only reason they come to Niagara Falls, other than people who are in the area. It's a destination, and it's the most popular destination in Canada.

The minute you add the casino component, then you're going against your argument that you're saying that people can go anywhere they want to go, and if they're going just to gamble, why would they pick Niagara Falls to gamble? This is an adjunct if you are coming to Niagara Falls. I think it's a plus, I think it's great, and I think it's the best place to put it; I've said it all along.

But where I have the problem is when you suggest that the person who can hop on the plane to go to Las Vegas or go to these other places is going to decide that they're going to gamble in Niagara Falls, particularly, and this is the point that you made, that if it's going to be a casino, it's got to be first class.

The casino in Niagara Falls, I have no hesitation, will have a first-class building, but by its very nature will not be a first-class casino. Number one, there will be no crap tables. Casino operators will tell you that 30% of their revenue comes from crap tables, and the real gamblers, the guys who really want the action, that's what they want to play.

There are going to be other restrictions. For example, you can't have drinks at the gaming tables. That may not be a big thing, but it's an irritation to someone who has the ability, and you're not looking for the local person, to go somewhere: "Why would I go there when I can't even have a drink, which is what I'd like to do?"

I agree with your point that if you're going to do it, do it right. Unfortunately, the way this is structured, as I say, it may be a first-class building but it's not going to be a first-class casino. Do you have any comments on that?

Mr Gandell: I do. You've made some very cogent points. Number one, you're totally correct. When I made the point about people can go for 98 bucks to gamble, it was to indeed reinforce the point that you're not creating a gambling problem here. People are not going to come here just to gamble. That's entirely correct.

As I said, it's one more part of the synergistic atmosphere of the falls to support the surrounding activities. People don't come any more, by the way, just to see the falls. There is a park system here, there are attractions here, there's a myriad of activities now that people come for. We know some people who come back here for atmosphere, for activities, for biking, for hiking. The third, fourth time they come back, they sometimes don't even go to see the falls, so you're quite correct; it's an additional plus. And you are quite correct that under the existing terminology, there will be some irritants which cause people who want to only gamble to probably go somewhere else. I have no doubt of that.

But people who are here enjoying Niagara Falls certainly, there will be a high capture rate of people who have one more activity, who will go, who will use the casino. I don't think we are in disagreement at all, and I think your comments are reassuring to me because I think it means you've understood a lot of what we said.

Mr Carr: Great. Some of the people who come here for honeymoons never even see the falls, as I understand it. I wouldn't know about that.

When you first stepped up to the microphone, you said that you'd done a poll of the members. Did you actually poll all your members?

Mr Gandell: The members of the board of the chamber of commerce.

Mr Carr: And it was 357 to 1.

Mr Gandell: No, those were the odds that I was going to change your opinion.

Mr Carr: I'm sorry, that's what I thought.

Mr Gandell: Niagara Falls does not have a very well-developed sense of humour. You have to appreciate that.

Mr Carr: What was the vote then of the members?

Mr Gandell: If you were talking about casino gambling in general, I think you'd find it's 100%.

Mr Carr: The next question is, I think you're right, a casino in addition will be another product to have, from a marketing standpoint, with the falls being the obvious number one. I understand you're also, as you mentioned, getting a lot of people from the Far East, the Japanese and many Americans come here. But isn't it true that the value of the yen and the US dollar will have more to do with whether US and Japanese people

come to Niagara Falls than will having a casino?

Mr Gandell: I can perhaps speak to that a little more knowledgeably than others because I also happen to be connected with the bridge commission and keep some pretty accurate statistics on who crosses and comes and whatever. The only effect the value of the dollar has done that we can remark on is that it's just about killed the cross-border shopping, which nobody is going to cry about.

The area as a destination most certainly becomes more attractive, and we are getting many more Americans coming here, period. The effect of the dollar is pronounced, it's positive and it's exceptionally beneficial to us in all respects for foreign visitation. Of that there's no doubt.

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But as Amy quite correctly stated to you, our problem in Niagara Falls is not to get more people on a yearly basis to come here. When you're dealing with 12 million, 14 million, 15 million people, you've got the traffic to make big money and support a lot of businesses. Our problem is to put together the type of package that will make them stay here for more than 1.5 nights.

That's the crux of our particular problem. It's what's called "capture rate." People coming through your stores—you all know the story of Canadian Tire and its expansion to the US. They had the cherry-pickers who basically came in for the steals and then left. That's what we're getting. We're getting the daily visitor and the people who come for some of the free stuff. If we can expand our package, we can sell it as a multi-night package, and therein lies our particular opportunity. But certainly the dollar doesn't hurt at all.

Mr Carr: I understand you've been able to attract a lot of people from the Far East and Japan in particular. What impact do you think a casino will have? Would it be dramatic in terms of attracting people from the Far East?

Ms Bignucolo: It's like everything else: I think it's a focus on entertainment. Again, I'll have to add what Allen said: It's the package that you could put together. I think it's going to be very positive, yes.

Mr Carr: Okay, thank you. Good luck.

Mr McClelland: Just as a point of information or a point of order, Mr Johnson: I just wanted to indicate Mr Carr's reference to honeymooners. My parents began their honeymoon here 50 years ago tomorrow. Now that I've matured somewhat, I feel comfortable to ask them if indeed they did see the falls. I'll advise Mr Carr accordingly, but I just thought I'd just share that little piece of personal anecdotal information.

Mr Gandell: We should share our experiences, because my father came here for his honeymoon in 1942, just before being shipped overseas, and he doesn't

remember seeing anything.

Mr McClelland: There you go. We'll compare notes. Thank you and thanks for your hospitality.

The Chair: Thank you very much for presenting before the committee today.

NIAGARA FALLS AND DISTRICT
LABOUR COUNCIL

The Chair: Next is Kim Craitor, president of the Niagara Falls and District Labour Council.

Interruption.

The Chair: Yes, indeed, people are having difficulty hearing. I would ask that the members and the people making the presentations be cognizant of the fact that some people are having some difficulty hearing. Just move a little closer to the mike, please.

Make yourselves comfortable. You have 30 minutes to make your presentation and field questions from the committee members.

Mr Kim G. Craitor: Thank you, Mr Chairman. First of all, I'd like to welcome the committee here to Niagara Falls on behalf of the Niagara Falls and District Labour Council. My name is Kim Craitor. I've been president of the labour council for the past six years and currently I'm a member of the Niagara Falls city council.

With me today I have our recording secretary for the labour council and a commissioner for the Niagara Parks Commission; to my right, sister Janice Bishop and to my left I have our sergeant at arms—I think you can tell by his size—for our labour council, brother James Whyte, who is also the president and business agent for Local 442 of the Hotel Employees and Restaurant Employees International Union.

Our labour council is comprised of 26 locals and geographically we cover Niagara Falls, Fort Erie and Niagara-on-the-Lake. It's ironic, because it wasn't that long ago that our labour council consisted of anywhere from 35 to 40 locals, and that tells you what's happened in the last three or four years in terms of plant closures and downsizing within the Niagara Peninsula.

In my introduction, I'd like to start out by saying that since this government's decision to establish casino gambling in Ontario, specifically the Windsor project, there's been much public debate centring on the moral and social implications of further expanding Ontario's gaming industries, while additional issues have arisen around the impact of casinos on existing gaming sectors, specifically bingos in the charitable sector and horse racing in the private sector. Here in the Niagara Peninsula, both of those sectors are very predominant, so we strongly urge the government, when you're reviewing the Windsor project, to look at the impact that that casino operation has on those two specific industries.

Now, our concerns and comments today will focus on the social effects of casino gambling and the optimal

distribution of casino revenues. First of all, in terms of criminal activities, and I think that always comes to the forefront when you talk about casinos, casinos in the United States are linked irrevocably both in perception and in fact to organized crime. Many of those who opposed casinos do so on this basis, and while we believe that government ownership with private management may not entirely eliminate this problem, it does, in our opinion, offer the strictest financial controls and supervision for the least amount of criminal activity through the establishment of your Ontario Casino Corp Act bill. So we're pleased that you are taking that approach.

In respect to revenues, it's obvious that under section 13 of the bill the government intends to transfer all casino profits into the consolidated revenue fund. We believe in doing so that this will invite the perception that this is simply another money grab on the part of the government. The connection with social spending becomes tenuous in the absence of any accountability mechanisms, and claims to the contrary would only be met with cynicism from the public.

What we're proposing as an alternative is that the government choose to flow a significant portion of casino revenues, and we're suggesting 65%, into a human service fund, with explicit funding criteria to ensure every dollar spent is strategically targeted to address priority needs, jointly determined by government policies and by front-line expertise from the human sector. In fact, we suggest that in order to enhance the effectiveness of casino revenues, the distribution should be further dovetailed with key initiatives as follows: (1) to use the revenues to reduce the number of long-term unemployed; (2) to provide opportunities for youth; (3) to maintain the elderly and disabled in the community; and (4) to ensure equity for disadvantaged groups.

Those are simply suggestions that we are making as part of our proposal. Certainly, those can be refined, but the point we're trying to make in terms of revenues is that we don't want it to become similar to the GST where it just got put into the consolidated fund by the federal government and sort of just got spent. There was a perception out there that that type of money was going to be used to reduce the deficit; it never has. So we would like to see some direct focus with casino revenues, and we feel it's important for this government, any future government, if casinos are in fact the way that we're going to go, that there are some mechanisms in place to ensure that those moneys are well spent for the benefit of the people of Ontario.

Under the age requirement, subsection 6(3) of the bill, it allows for individuals 19 years of age and older to play in casinos. Our labour council believes the age limit should be 21. We understand the government is of the opinion that an age limit higher than 19 would not

have withstood a challenge from the courts under the Human Rights Code or the Charter of Rights and Freedoms. We disagree and we feel strongly that 21 is more an appropriate age, especially with the initial startup of casinos in Ontario.

Casino location: I'm not going to go into a lot of detail with that. I'm sure you've heard since 10 o'clock this morning a lot of rationale and justification with respect to Niagara Falls being the ideal location. I'm going to touch on just a couple of things from our perspective.

1450

There's no question, in our opinion, that Niagara Falls is an ideal location for a casino. Niagara Falls is a border town. It's strategically located in a catchment area of over 40 million people within a six-hour drive. Niagara Falls is a destination point, and as such there already exists a tourism infrastructure and an established tourism market.

Certainly the impact of a casino operation is needed in the city of Niagara Falls, which has been heavily hit with plant closures and downsizing, to the point where the unemployment rate has continuously remained over 14% for the last two or three years. As you know, many of our economic problems have been caused by federal government policies—the GST, free trade—as well as cross-border shopping.

In conclusion, while our labour council generally supports, and I say generally supports, the concept of casino gambling, we believe that it's imperative and prudent for this government to act very cautiously and carefully before it considers moving on to further projects, to develop four areas that we're suggesting: (1) stringent gaming policies and procedures, (2) a strong social network, (3) an effective regulatory and law enforcement framework, and (4) compatibility of casinos to the local community's environment.

I submit this presentation on behalf of the Niagara Falls and District Labour Council. We're certainly open to any questions from the committee.

The Chair: We have up to eight minutes per caucus.

Mr Kwinter: I have it all to myself; wonderful. I have a couple of questions I want to discuss with you. The issue of the ages, 19 and 21, has come up quite often. The problem is that there is a perception, not only in gambling but also in alcohol, that somehow or other liquor is more damaging than beer and that casino gambling is more damaging than bingo and charity gambling and horse racing and lottery tickets. It's all gambling.

Are you suggesting that casinos be restricted to those who are 21 but that people who are 19 can continue to buy lottery tickets, can continue to play bingo, can continue to go to charity casinos but that they can't go to this particular casino? If that is what you are suggest-

ing, how do you feel you can justify that?

Mr Craitor: Obviously that is what we're suggesting because we are in favour of having an age limit of 21. With respect to giving a rationale that totally justifies our opinion of 21, this particular subject was discussed in detail with the council. There are reservations with respect to casinos to begin with, and our concern is to ensure that they're done properly, that they're done equitably. In terms of 21, it's our understanding that in the States, Las Vegas for example, that's the age limit and it's been successful.

Mr Kwinter: It's also the age limit for drinking.

Mr Craitor: Okay, but they've been successful with that age limit. The bottom line was that we felt initially, for starting up, that would be a more appropriate age to deal with. If it was found that 19 was more appropriate, it's always easier to move down than it might be to move up. That was our rationale for it. We understand what you're saying. Those things were put forth by the council, by some of our members who thought in terms of 21.

Mr Kwinter: The other area I'd like to discuss with you is your proposal that there be a human service fund and that the moneys, rather than going to the consolidated revenue fund, be used for worthwhile purposes.

I'm sure you know that when lotteries were first proposed, in order to make them palatable—lotteries were a far greater controversy than casinos in the sense that the idea of having lotteries was a real quantum leap in what was happening in Ontario. This is kind of an extension of it because the groundwork has already been laid by the fact that people are already gambling on lotteries.

The rationale at the time was that all of the proceeds from the lotteries were to go to athletics, sporting and cultural pursuits. Well, by the time the government finished putting roofs on all the arenas in Ontario and some of the other things, it just ran out of projects and has now diverted lottery money to the consolidated revenue fund.

It is certainly the intention under Bill 8 that the moneys that come out of casino gambling are to go the consolidated revenue fund. I would be interested in hearing from you about what representations you've made other than to this committee. What kind of support have you been able to marshal about having the government take a look at your proposal to have the funds earmarked to specific social projects?

Mr Craitor: First of all, with respect to whether we have lobbied elsewhere, the answer is no. We reviewed Bill 8 and realized that was the intent through the bill on where these revenues were going to go.

With respect to setting up a human service fund, and that's just a term we used, the council felt it was appropriate that those types of revenue have some very

specific and positive direction that they would be used for, rather than just being amalgamated with other sources of income for the government.

We don't have concern over this particular government's positive use of revenues, which we think you will use them for, but our concern is that in the future they may be used for other things which we don't think are appropriate.

In relation to where they should be spent, those were suggestions, but we just felt strongly that there have to be some criteria set up so that the money is used for specific things to benefit the people of Ontario. Obviously, unemployment is one, and obviously the government is doing that. If there's an opportunity to use these funds to enhance that, then there's nothing wrong with that. But if there are no mechanisms in place, then our concern is that the money will just be spent and not spent the way we think it should be in terms of where the money is coming from, and that's from casino gambling.

Mr Kwinter: I think it would be a fair political comment, and my colleagues may disagree with me, that almost the sole motivation for this initiative was revenue enhancement. I don't think there were people picketing in the streets saying they wanted casinos. It was obvious, when the ministry responsible was not even aware of the initiative until it was announced in the budget, that the main purpose of this particular initiative was revenue enhancement, which is a euphemism for getting more money for the government.

It would seem to me that the revenues generated by casinos, no matter which government is in power and for the foreseeable future, will not be available to use in a discretionary manner, for example for specific projects, just because of the financial status of the province. The government is desperate to get revenues to service the debt, to look after those kinds of things that will enable it to function. I'm just wondering again how practical your suggestion is that these funds be earmarked, given the whole rationale for this exercise.

Mr Craitor: With respect to being practical, it's possible that it may not be. In terms of how our council feels, that's the issue we've put forward. If our labour council had its druthers, we'd rather see a major industry, or three or four, come into this community—that's really what we would want—to replace a number that have closed up. It appears that's not happening, and we have to look at other options that are available.

I would suggest to you that if you had talked about casino gambling four or five years ago you may have had a different point of view. Under the economic times we're going through, it has come to the forefront and now is being looked at as an alternative.

I'm getting off-track in terms of what you've asked me, and I really don't have a clear-cut answer. It's just

important that the revenues serve some very useful and positive purposes rather than just being lumped into the general consolidated fund. That's the point we were making. If there are other mechanisms that can be worked out to fine-tune that—it doesn't actually have to be the one we're suggesting—they can be considered. I understand what you're saying. I mean, the whole concept of this was to generate revenues, and we said that in our presentation. We don't want it to be perceived that this is strictly another money grab. We want it perceived that if we're going to go ahead with them, there's a useful purpose for them, that "Here's what the money is being used for," and it is in fact for the betterment of the people of Ontario. That's the point we were trying to get across on that issue.

1500

Mr Carr: My question—actually, Monte took it—was along the same lines, so rather than beating a dead horse—

Interruption.

The Chair: If you're having difficulty hearing, I might suggest that you sit a little closer to the speakers which you see at either side of the room. That might assist somewhat. Mr Carr, please go ahead.

Mr Carr: I'll make sure you can hear. How many jobs do you think are going to be created because of the casinos? How's that? Sorry, Mr Craitor. It sounds like I'm yelling at you in anger.

Mr Craitor: It sounds like we're at a demonstration. We don't have specific figures. It depends on the type of casino that's set up, the size of it. We've seen the reports that have come out, just as you have.

Mr Carr: But do you think those reports are realistic, or are they optimistic? What are your thoughts?

Mr Craitor: What's more important from that perspective for us as a labour council is the quality of jobs it produces, and that's what we're after. If this is the way to go, then it's got to create jobs that are quality, jobs that provide the kind of wages that a person is going to be able to live on, raise a family, buy a home. That's what we're after. We're not after the creation of just more part-time employment. There is some importance there.

Mr Carr: Do you think the casino will give you that?

Mr Craitor: We think it could, but in terms of numbers, we do not know. We don't have that type of expertise. We've just seen the figures, the same as yourselves.

Mr Carr: Just so you know, and you can probably comment on this, the government is saying that the average income is going to be \$25,000 to \$30,000. There is a big range because there will be some lower and some higher, but that's the average number, the average income. I was just wondering whether the

\$25,000 to \$30,000 would that be the type of jobs you'd be looking at? If the government is successful in getting that range for whatever number of people are employed, would that be acceptable to you?

Mr Craiton: We'd like to see them earn more, but in this economic climate, considering that you have 14%, 15%, 16% unemployed people, \$25,000 to \$30,000 is certainly a reasonable income.

Mr Kormos: Are you supporting the unionization of these workers?

Mr Carr: There was a lady up in the Sault, when you weren't there, who worked in Europe, and she said you should actually pay them more. She said that in Europe it's higher, about \$50,000.

Mr Kormos: She was probably unionized.

Mr Carr: She didn't say. She sounded like she was part owner, the way she was talking.

Mr Craiton: Peter is quite right. I think we are under the supposition, and maybe we're wrong, that this will be an organized location and certainly there will be a union in place and there will be a collective agreement in place. We're also under the supposition that you'll have some policies in place that'll be buy Ontario only or buy Canada only, that we'll spend the money here within our province or within the country. We assume those are all policies that go with casinos, that we're not going to have someone come in and then spend outside the country, that we'll use our own people and our own resources.

Mr Carr: What about the feeling that if a casino opens up, a lot of the jobs, because they are skilled jobs, may be filled by people who are already working in casinos in Manitoba or wherever? A lot of the people here want the jobs and the reason they support casinos is for the jobs here. How do you limit it so that the people here get the jobs? How do you propose that somebody do that? If you're talking about a blackjack dealer or somebody, how do you make sure the people in Niagara get the jobs?

Mr Craiton: We would certainly suggest that if casinos are a go here, there's got to be criteria in place. For example, we have Niagara College here. Anyone working in a casino should have a certain field of expertise, have to receive certain training, have to have certain qualifications that are met and have to go through that process. I don't think we want people hired who haven't had the proper training on how to work within a casino environment. That would be number one, that there should be a training program in place and they should have to go through that before they become employed in a casino operation, and that it be standardized right across Ontario so that they're all operating in the same manner, employees know what they should do, what their responsibilities are etc.

In regard to, are they all going to be strictly from the

Niagara Peninsula, that's what we would like to see. I think that'll have to be discussed at the time. I can't give you something specific, how we can arrange for that, but obviously that's the whole intent of this project. If we're able to go ahead with casinos, that'll create jobs for the unemployed people we have here.

You're suggesting that they may come in mass droves from Manitoba or other provinces that have casinos. Is that what you're suggesting?

Mr Carr: No, what I'm saying is when somebody opens up and they get a casino and they're told they've got the licence, they hire people coming through the door and a guy from Manitoba comes and the person—

Mr Craiton: What I was saying is that you have a training structure in place, you have a criterion that has to be met and you can't just hire someone off the street. They have to have gone through a training program and have some type of certificate that's a requirement.

Mr Carr: Experience.

Mr Craiton: Or experience, yes.

Mr Carr: That's what I'm looking at, people coming in and these high-skilled jobs that are needed. All of a sudden, as soon as the casino opens in Niagara Falls, I think a lot of people think they're going to get the jobs. What I'm saying to you is, there needs to be some mechanism—and you may want to think about this—because when they get it opened up, what's going to happen is they'll have applications and if somebody comes from Manitoba and says, "I've been dealing out there for three years," that person may get the job and want to come to Niagara Falls because it's such a great spot to live. That isn't really a question, it's just something to be aware of.

Ms Janice Bishop: I'm assuming that once these casinos are up and running in the province of Ontario, our employment equity legislation will be in place. It's not going to bar people from working in the province certainly, but when these casinos are opening, certainly the casinos are going to have to reflect the community which they're drawing from. It's not going to bar people, but the casinos will be reflecting the communities they're drawing from and employment equity should in fact help that kind of issue.

Mr Kormos: What's he's telling me is that I have to do this very, very quickly. Look, it's clear that when lotteries were introduced, now for some decades, that their sole motive was to raise money. There were no two ways about it. Nobody was talking about leisure activity. Nobody was talking about entertainment. People were talking about separating people from their money, bottom line.

It's interesting that the genesis of casino gambling as articulated was initially for the express purpose of raising money for a cash-strapped government—there's no debate about that—however, in a very schizophrenic

way, it soon became rationalized by many other arguments, again the leisure activity, the entertainment aspect of it, and then of course the big mom-and-apple-pie hit, economic rejuvenation, especially for border communities. So one has to be a little sceptical about that because now it's being marketed.

Look, the bottom line is that casinos are not about winning money, they're about losing money. The purpose of a casino is to empty people's pockets as thoroughly and as quickly as is possible, giving them nothing in return or as little as possible in return. They're very much like insurance companies in that regard.

In view of the fact that you're not providing a product, you're not providing a service, your purpose is to empty people's pockets and pay out as little as possible, how do we protect the woman or man in this community who works hard for the smaller and smaller paycheque, especially if you work in the public service, that you take home? How do we protect the woman or man who's not earning an income because she or he is unemployed and who wants to grab at that brass ring?

And I understand that. You see it now where gambling is permitted, at the racetrack or what have you, people who are desperate and who strive to make up for their previous losses. How do we protect those people and ensure that this truly is a casino that's going to attract the wealthy who can afford to gamble as compared to the working and working poor who can't afford to?

1510

Mr Craitor: A hell of a good question. You can't. Obviously, it's no different than your bingo operations. No one stands at the door and does a credit rating, saying, "Do you have the income to be able to play bingo?" You have to leave it up to the individuals.

We realize there are social implications to that. I understand what you're saying. Obviously, you want people who participate in casino gambling to be the ones who can afford it, who have the money, and they're not going to find themselves going home and not be able to pay the rent and buy food for the kids. We know that; those things have been discussed by our labour council. The reality is that there is that possibility. Those are the side-effects of a casino, but no different from your bingo or your horse racing. The same thing happens there. There's no clear-cut way that you can monitor who comes in to play casinos. There just isn't.

Your point is exactly right. Even for our labour council, the whole reason that we're supporting this is because of the economic climate. You know, that's what we find ourselves in. We've got to come up with solutions to create jobs. This at this point seems to be one of them.

Also, for our community here in Niagara Falls, it's a unique community, and there's no question that if it's done properly and doesn't have the side-effects that we're all concerned about that it could have for our community, it will add that one more feature that we feel would keep people here a little longer, maybe spend a little more money or add as an incentive for them to consider coming to Niagara Falls as part of their holiday. There's the horse track up there, there are casinos, there's Niagara Falls, there's the family entertainment that we have here, so all of those features are incorporated as part of our selling package.

Ms Harrington: I think we all understand that a casino is certainly not the answer to all our economic woes. It is only a part—we can't put too high expectations on this—of our economic stimulus, a part of our tourism. It fits well with tourism.

You say in your brief here that it has to be done cautiously and carefully. You are worried about any adverse effects on the community. I'm sure you are concerned about that, because you represent a lot of people in this community who are raising families and are very much part of this community. Do you feel that, to make sure we don't have any of the downsides in this community, a pilot project evaluation is a good idea?

Mr Craitor: We felt it was a good idea. There were those of us, the majority of us, who tended to feel Niagara Falls might have been the better location of the two, but a decision has been made and Windsor is the location.

We said in our report, and we agree with it, that it has to be looked at very carefully and cautiously. We've indicated four areas that we feel the government should look at before you proceed further. Now that you've made a determination that Windsor is the project, we want it to be looked at specifically, at least in the four areas that we've suggested.

Ms Harrington: If anything bad happens, it can happen in Windsor, but not here.

Mr Craitor: Well, if there are problems in Windsor, then you have the opportunity to correct them, so that when it comes to the Falls we won't reinvent the wheel over again.

Mr Sutherland: I guess I differ from Mr Kormos in that I have faith in the ability of working people to make decisions, being empowered to make decisions, that they'll make the correct decisions and act responsibly in how they conduct themselves in different areas.

My question was, I just wanted to get a general feel from you in terms of what you are hearing from your different membership out there and what they think about casino gambling in general, rather than specifics about whether Niagara Falls should be—what is the reflection of your membership from what you hear in talking to them on a regular basis?

Mr Craitor: Let me answer that as president of the labour council. Let me tell you also that I've worked for 23 years at an unemployment insurance office. I see the unemployed day in and day out, and the last four years have just been the toughest four years that I've been there, looking at the quality of people out of work, the number of people out of work.

For the average person out there asking that question, are casinos the end-all and the be-all?—for the average person out there, there is hesitation. I mean, they want it but there's that hesitation of the social and the side-effects of it. There's that concern because the people you're asking are in fact people who have families, who have kids, and are going to raise them.

I was talking with a gentleman today, and that's exactly what he was saying, and I've heard it over and over. We do have children and we have a very unique and a hell of a good community to live in. It just has so many things to offer. There is that concern, even for those who are unemployed. I've asked a number of people coming through the unemployment office, and we're sitting there just talking about things. I say: "What do you think? What do you think about a casino? Is that going to help us? Is that going to make the difference?" Even some of them who are unemployed and are looking for jobs express some of the same concerns, and that is the social aspect of it.

That's why in our brief we've emphasized it, and I say it over again: You've got to be sure it's done properly, that you address some of the major concerns that we've suggested, and that those are looked at before you move on.

The Chair: I thank the Niagara Falls and District Labour Council for presenting this afternoon.

ONTARIO RESTAURANT ASSOCIATION,
NIAGARA REGION

The Chair: Our next presenter is David Hagarty, president of the Niagara region Ontario Restaurant Association.

Mr David Hagarty: Good afternoon, and welcome to Niagara, the world's most famous address and the gateway to Ontario.

At the outset, and on behalf of the Ontario Restaurant Association in the Niagara region, please let me extend my sincere appreciation for this opportunity to address you with respect to Bill 8, the casino legislation.

My name is David Hagarty and I am president of the Ontario Restaurant Association in this area. In addition, I am pleased to introduce two of my colleagues, Mr James Roberto, who is sitting at my right and is past president of the Ontario Restaurant Association, Niagara region, and Mr James Curran, who is sitting on my left and is the association's membership representative in this area.

As a backdrop to our presentation, allow me to

provide a brief résumé for the association. The Ontario Restaurant Association has represented the foodservice industry in Ontario for in excess of 60 years. It is the largest provincial foodservice association in Canada, with a roster of over 4,000 members who operate thousands of establishments, employing several hundred thousand people in the hospitality industry. In our community alone, we have over 100 members operating several hundred establishments, employing several thousand people.

The association's mission is empowered by its dedication to the growth of a thriving, responsible, competitive and superior foodservice industry which will emulate its credo of a commitment to excellence.

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Notwithstanding the positive spirit of our mission and of our commitment to excellence, you need to know that our industry has been severely damaged by the inclement climate which has plagued all of us during the past several years. Admittedly, ours is not the only industry which has been affected. However, permit me to suggest that the number of closures, bankruptcies, layoffs and lost jobs in the food service sector clearly award the industry first place on the nation's casualty list.

On Thursday 30 April 1992, the Minister of Finance, the Honourable Floyd Laughren, announced that the government of Ontario would open casinos in the province. The rationale supporting this announcement was simple and based on the following premises: (1) Casinos will create jobs, (2) casinos will encourage the development of tourism, (3) casinos will contribute to the economic development of the community, (4) casinos will represent the start of a viable new industry, and (5) casinos will generate revenue.

Our industry in Niagara was elated by the announcement and concurred positively with the casino rationale and its objectives. Specifically, we were encouraged by the notion that perhaps a casino in Niagara could be the direly needed catalyst which would resurrect the economy of our community and the health of the industry. Almost 500 days have passed since that announcement. In the meantime, on October 6, 1992, the Minister of Consumer and Commercial Relations, Marilyn Churley, proclaimed that Ontario's first casino would be placed in Windsor. The Windsor decision was supported in part by the rationale that "by starting on a small scale, the most effective regulatory and law enforcement systems could be put into place."

Naturally, the plurality of the members here and a commanding segment of this community were extremely disappointed with the government's casino decision. We're not sore losers; we applaud Windsor's good fortune and we appreciate the importance of synergy which needs to be in place in order to achieve results which will benefit the greatest number. None the less, the question still lingers: Why not Niagara?

Putting aside our concern for the validity of a casino placement criteria which overlooked this particular community and with your kind indulgence, I would briefly like to reaffirm Niagara's unique attributes as an exclusive casino site and share with you a condensed summary of the social and economic needs which such an enterprise would satisfy here.

Tourist visitation to Niagara Falls averages approximately 12 million people each year. With the exception of Toronto, there is no other city in the province which attracts this volume of traffic. On the average, and given normal circumstances, these visitors will spend approximately \$700 million a year here. The notable decline in this revenue over the past few years accounts for the serious financial problems challenging our community and our industry.

The falls at Niagara, one of the wonders of the world, are an international attraction. They are the most photographed, painted, written-about, talked-about and sung-about Canadian attraction. The magnificence of their scenic beauty has been conveyed to all four corners of the earth by literally billions and billions of postcards which have been sent from here. It is reported, in fact, that in Japan the receipt of a postcard from Niagara represents a significant honour. You must admit, we do have something over the Detroit skyline.

An inventory of accommodation facilities which is in place at this very moment approximates 9,600 rooms capable of hosting over 20,000 people a night. It is of interest to note that on the average this huge resource is only utilized about 46% of the time.

A galaxy of attractions includes a famous theme park, Marineland, a variety of interesting museums, several observation towers and one of the most incredible boat rides in existence, the Maid of the Mist. By and large, Niagara offers an exciting diversity of amusing, entertaining and educational experiences for the whole family.

It is of interest to note that this enviable component of tourism currently existing in Niagara is being feverishly developed in Las Vegas in order to bring that city up to speed in this regard, as well as to appeal to the family market which such attractions draw.

One of the most revered and lauded recreational facilities in the world, Ontario's Niagara Parks, includes several unique scenic attractions and the parks' showcase, Queen Victoria Park. It is this section of the park that frames the falls at Niagara in a spectacular and very exquisite manner.

An international complement of food service establishments which includes every style and every type of dining category imaginable is equalled by a large and diversified retail-commercial base which offers a broad selection of Canadian souvenirs, gifts and novelties.

An attribute which is clearly exclusive to Niagara

involves the presence of four law enforcement agencies, including the Royal Canadian Mounted Police detachment at St Catharines, the Ontario Provincial Police department at Niagara Falls, the Niagara Regional Police department and the Niagara Parks Police. Every one of these agencies is versed and experienced in dealing with the special requirements of policing a community that hosts 12 million tourists a year.

While on the subject of law and order and in addressing what impact a casino will have on crime in our community, we concur that this concern needs to be given appropriate and proper consideration. In addition, however, we'd like to share the essence of some research which we've undertaken in this respect.

Lest the emphasis of law enforcement be misplaced in addressing the casino development process, we need to take note of the lessons provided by the casino experience elsewhere. In our view, one of the most important observations provided on the subject was offered recently by Mr Michael Rose, chairman of the Promus Corp. Mr Rose suggests that crime per se is not propagated by the presence of a casino; crime increases in direct proportion to the number of people who are attracted to a casino.

To illustrate his point, Rose reports that when casinos started to operate in Atlantic City, over 30 million people were attracted to that city and naturally there was an increase in crime. Rose also observes that when Disney World opened in Orlando, Florida, approximately 30 million people were attracted to that community as well. Rose adds that in fact crime in Orlando increased more than it did in Atlantic City as a result of this new attraction. We must be careful, therefore, to avoid the misconception that gaming causes an increase in crime. It doesn't. Whatever the attraction, an increase in the number of people who will visit an attraction will increase the probability of crime there.

In light of the confusion created by the notable differences between the Windsor Police Department report on casino crime and the Albanese report on the same subject, it would appear that this aspect of the casino development process needs to be examined far more thoroughly by a combination of academic, law enforcement and casino administration professionals in order to avoid the creation of an enforcement posture which could abort the success of the project.

As we sit here today, 4,600 delegates of the United Brotherhood of Carpenters and Joiners of America are concluding their four-day convention in Las Vegas. This August just past, over 140,000 convention and trade show delegates chose Las Vegas as their convention site. The Vegas Convention Authority reports to us that each of these delegates spends approximately \$800 on each visit and, further, that expenditure does not include gaming revenue. That means the convention delegates in Las Vegas spent \$112 million in Las Vegas this past

August, and not on gaming.

Surprisingly, the convention authority reports that gaming is not a primary factor in determining a convention organizer's choice. Rooms, recreation, entertainment and shopping all rank as important factors which influence a convention organizer's choice of Las Vegas as a convention site.

As mentioned previously, not including campgrounds or rooming houses, we have approximately 9,600 rooms in Niagara Falls, and half of the time they're empty. We appreciate that although we are capable of accommodating 20,000 people nightly, we do not have a convention facility which will host an event of that magnitude. Notwithstanding this, however, we do have facilities capable of hosting up to 2,500 and we have hosted sports and service organization gatherings which have attracted in excess of 5,000 delegates.

Once a convention centre is added to the complement of existing facilities in Niagara, this community will be capable of hosting the super conventions. We need to stress the fact, however, that with the exception of the convention centre, Niagara already features the components which attract conventions: rooms, accommodations, recreation, entertainment and shopping.

We agree that the establishment of a casino can never be the end-all of the social and economic strife which is being suffered by the province and every community in Ontario during the past several years. We do contend, however, that the remarkable financial performance inherent in this enterprise, responsibly harnessed, will deliver a great many of the solutions we need.

Niagara Falls, Ontario, is persistently on the unemployment hit parade, ranking consistently as one of the top 10 communities in Canada, let alone Ontario. Several months ago, our welfare roll topped the 12,000 mark. Such statistics, however, are but the tip of the iceberg, for below the surface of this stormy sea there lies an immense and dismal aggregate of failed businesses, lost jobs, broken homes, lost savings and a city that's virtually stressed-out in its effort to collect in excess of \$20 million in outstanding tax revenues needed to provide the essential services it provides for its residents.

It's ironic. We're almost paranoiacally concerned about the impact of casinos on crime, while around us our community has been thrown into a disadvantaged social and economic condition that has been historically responsible for breeding crime.

1530

There is a legal terminology which is often used, and it states that time is of the essence. We do not advocate that anything of this magnitude should be rushed into without considering every possible contingency. We do suggest, however, that it is completely within the realm of possibility to establish a casino at Niagara much

sooner than has been suggested and that time is indeed of the essence.

We need to focus on the fact that our social and economic concerns are in critical need of an immediate and remedial solution. In addition, we need also to be concerned about the fact that there is a likelihood that competitive casinos will be developed in New York and Michigan, and yes, we do believe that the early bird gets the worm.

A casino is a casino is a casino. The suggestion which has been advanced that Ontario's casinos will be unlike any others and for that reason we must be very, very careful and move very slowly and cautiously may need to be reviewed. There are literally hundreds of working models around the world which can offer the template to the superior casino the province is aspiring to build. The commitment to being the best is a worthy one; being best, however, doesn't necessarily mean it has to take a long time.

It is with respect, therefore, that we encourage an acceleration of the casino development process and ask you to reconsider the present position on the placement of a casino at the world's most famous address, Niagara Falls. Your close scrutiny will indicate that we match each and every one of the April 30 announcement criteria to a T.

Finally, I realize that the Ontario Restaurant Association in both Windsor and Ottawa has addressed this committee, therefore I will not take up any more of your time addressing the issues presented to you at those hearings. Of specific relevance to our association in Niagara, and in summary here, however, I do need to apprise you of the following:

(1) The Niagara region echoes Windsor's and Ottawa's concern on the service of food and beverages within the casinos. The prospective analysis of cash flow provided by the Coopers and Lybrand report which was commissioned by the government lists two items of serious concern to our industry in this area. Specifically, analysis indicates that a Niagara Falls casino will realize over \$43 million in revenue for food and beverages in the first year; an additional \$54 million is provided as a complementary expense. Food and beverage giveaways used to promote the casino is what we interpret that to mean.

Together, these two items total an expenditure of \$97 million in food and beverage service at the casino in Niagara. All of the restaurants on Clifton Hill in this city combined could not achieve this level of income in a year.

We need an assurance that our industry will not be critically disadvantaged by that kind of competition. Unless we can have the assurance that we won't be disadvantaged by that kind of competition, it will be difficult for us to support Bill 8.

(2) We echo Windsor's and Ottawa's concerns about the accommodation sector as well. Those, I understand, were outlined quite completely for you.

(3) We encourage consideration of extended hours of liquor service patterned on the resolution passed by the city of Niagara Falls recently, which grants an optional extension to licensed establishments that would allow service to 3 am. Ontario is the only province in the country that still has 1 o'clock closing.

Please accept our sincere gratitude for your very kind attention this afternoon and for the courtesy of your time and effort on our behalf. Should you have any questions, we'd be more than pleased to answer them.

Mr Carr: Thank you very much for the presentation. Looking specifically at the restaurants in the Niagara region, if you get a casino what percentage increase do you anticipate having here for your members?

Mr James Roberto: In terms of revenue as compared to right now, we're busy in July and August, and with a casino being in the Falls I think we would be busy at least 10 months of the year.

Mr Carr: Maybe you could fill me in on the percentage, and I'll tell you why. In Windsor, when I talk to business people, I trust their figures better than I do the government's. The government has a reason for being biased because it wants to get a casino in, so it puts figures up. Every business person I asked who's come through said, yes, it's a great thing, but if you ask a simple question about the percentage increase, nobody can tell you, "We think one will increase us 2%, 3%, 5%," which means I'm a little leery.

This morning we heard people saying 10 jobs would be better than nothing, which I guess is true, but the figures being used I believe are very optimistic. That's why I would like to see whether you have some idea of the percentage, something people can understand very simply. Obviously, there's going to be some impact on restaurants and the amount of revenue's going to increase. If they know it's going to be a 35% increase, the people of Niagara can say, "That's great and will help the restaurants," but if it's only going to be 5%, then they might say it's not worth all these other problems.

I hate to pin you down and I appreciate that you don't just throw numbers out like governments do if you can't answer it. But let's assume a casino comes in and you get everything you want, that they don't have a big hotel in there with a lot of restaurants, that everything's the way you'd like to see it: What percentage increase, as a total, do you think your membership could see in its revenue?

Mr Roberto: It's very hard for me to give you a percentage, but I would not hesitate to guess anywhere from 15% to 20% guaranteed.

Mr Hagarty: I might add that perhaps the only formula you could use to speculate on that—and that's what it is, speculation—is to relate it to the increased traffic that we might expect due to the existence of a casino. If that advances from a position of 12 million people a year to some 18 million people a year, then we could use that percentage increase and just apply it as a template to the restaurant.

Mr Carr: One of the guys who came in in Windsor said, "You give more traffic and I will give you"—and of course in retailing, traffic is the important thing.

Mr Hagarty: That's exactly the case.

Mr Carr: I'm glad there is some type of figure because, as I said, I trust your figures more than I do the government's. I think it's important for the people of Niagara to say, "The restaurant people think it will increase maybe 15% to 20%," knowing it's a guess-timate, but I think that's helpful for the people of Niagara.

The other question is—

The Chair: Mr Carr, I'm sorry—

Mr Carr: Oops, no other question. Good luck.

Mr Kormos: On a point of order, Mr Chair: In responding to Mr Carr, you should know that Mr Roberto's restaurant, the Casa d'Oro, probably attracts more people now than most casinos ever would because of the food that's served.

The Chair: Mr Kormos, that's not a point of order, but it's interesting. Mr Duignan.

Mr Duignan: Addressing your concerns about the food and beverage part of the industry, as you know, the only casino we're talking about right now is the one in Windsor. The figures used by Coopers and Lybrand are based on the Atlantic City model of a casino, where it has unlimited food and beverage services. We have distinctly said that the restaurant size, for example, in the Windsor complex will not exceed 10%.

If you look at the figures for Windsor, Coopers and Lybrand say that based on the Atlantic model, it would generate some \$174 million for the government, but based on our figures, because of limiting it to 10%, we're only estimating a return of some \$140 million. The difference of that \$34 million is because of the limit on the food and beverage services available in the casino complex; it gives people an opportunity to get out of the community and spend that \$34 million. But you have our assurance again that the food and beverage services in the Windsor casino will be strictly limited to 10%.

Mr Hagarty: We appreciate that and thank you. To move one step further, if we could have that included in the legislation so that the assurance is solid, we'd be very comfortable.

Mr Duignan: Your point is well noted. Your request

to extend the liquor service until 3 am is outside of the scope of this particular piece of legislation. This particular piece of legislation will have to comply with the existing liquor regulations, which say service ends at 1; however, that could be subject to change as well, but it can't be addressed in this particular bill.

Mr Hagarty: Just to keep you apprised in that regard, we have met with the chairman, and we're advancing through those channels, but we understand we're going to end up with the Ministry of Consumer and Commercial Relations.

Ms Harrington: Thank you, Mr Hagarty, for your brief. I know you've done a lot of work on it. I can tell you wrote it personally; I know your style here. I like this line: "It's ironic that we're almost paranoiacally concerned with the impact of casinos on crime, while around us our community has been thrown into a disadvantaged social and economic condition that has been historically responsible for breeding crime." It's a very interesting comment.

1540

I just want to tell you that yesterday in Ottawa we were presented with a presentation from two people from your association, Paul Oliver and Phil Waserman, that differs somewhat from your point of view.

Mr Hagarty: I think the position we've taken is that we're more involved with the community than with the provincial picture. We didn't think you wanted to hear that all again anyway.

Ms Harrington: I know you're very good at organizing events. A year ago last February you organized about 250 or so people on an anti-labour rally that you held here in Niagara Falls. My question to you is, how do we reach out to this community to have it say very clearly what its opinion is on this?

Mr Hagarty: Incidentally, thank you so much for the very positive comments. I'm so glad I came this afternoon. I was frightened to death at the outset, but you've completely relieved every concern I've got with your compliments.

My background is marketing. Of course, the standard answer to that kind of challenge is research, and it would involve the design of a very simple questionnaire that addresses the problem you want to solve, which in this instance is really simple: Do you or don't you want a casino?

Ms Harrington: People have to know to know what they're getting. They have to have an idea of what they're voting on or responding to.

The Chair: Ms Harrington, we have to move on. I'm sorry.

Mr McClelland: Actually, the question I was going to ask has somewhat been addressed. I was interested in knowing what kind of assurances you were looking for, particularly as you turn to page 13. I suppose it's partly

a characteristic of the beast we call this political machine of whatever persuasion in the province of Ontario, and indeed perhaps all democracies in the world.

You have had assurances stated by the parliamentary assistant. I have said to him on many occasions—you may or may not want to comment on this—that his assurance that Windsor will be the only pilot project and that it'll be studied is the policy of today, but then again, tomorrow I suspect they'll be a little bit different.

In the context of the 10% assurance that you've been given—and this is my fear for your industry; you say without that you can't support the bill—my suspicion is that, just as the government says we are only going to do Windsor, the pressures will be such that some time before the 1995 election, there will be five or six other locations announced in this province. I think that's virtually inevitable.

Likewise, I suspect that as the casino gets up and running in Windsor, the pressures to produce a profit will be such that they will say: "We've got to be competitive. They're going to have one in Detroit; we've got to be competitive. We're going to change the rules with respect to alcohol on the floor. We're going to go full scale in terms of doing the attraction, the type of entertainment and the buffets at \$3.95 for all you can eat, as they have in Vegas." Those pressures are going to be there.

There's a gentleman who came before the committee in Windsor. He was in retail and he said: "Let's be realistic about it. Let's not pretend we're going halfway. If you're going to go, go all the way." Indeed, you had a gentleman here this morning from your community, representing the chamber of commerce, who said that if you're going to do it, do it full scale and professional, that you've got to do it a little bit better than the competition stateside.

In that context, I ask you, how can you realistically rely on assurances? I suggest and I firmly believe—not to be negative, just that the pressure's going to be so great—that you're going to see that those assurances given today in all good faith—my friend is an honourable man—will change and that you'll see the numbers change drastically.

What kind of assurance do you want? I guess in a sense you've already answered it. I just raise that partly as a personal opinion and perhaps it'll elicit some sort of comment in response from you.

Mr Hagarty: Thank you for the concern.

Mr McClelland: I don't know if you want to comment.

Mr Hagarty: I wish Paul Oliver were here. I understand he's—

The Chair: Our time has expired. Thank you for making your presentation this afternoon.

JOHN HAYES STABLE LTD
ESCARPMENT FARMS LTD

The Chair: Our next presenter is John Hayes, for John Hayes Stable.

Mr John Hayes: I want to thank the committee for allowing me the opportunity to address the subject of Bill 8. My name is John Hayes. I'm an equine veterinarian and standardbred horse trainer. I live in Beamsville, Ontario. To my right is Linda Lockey. Linda is a member of the Ontario Federation of Agriculture and co-owner of an agriculture establishment in Niagara concerned about the impact of casino gambling on the future of their agriculture endeavour and lots like hers.

Welcome to the wake. We are gathered here today to pay respects to a dearly departed friend. When a heart stops beating, we can only have remorse for the insensitivity that brought us here and mourn the vitality lost for ever. Having been intimately acquainted with the deceased since childhood and as a business associate in my adult years, this eulogy is tempered by disbelief and bitterness, realizing that it never had to be.

For those of you who didn't know the victim, allow me to elaborate. Optimism, the soul of horse racing, has been bludgeoned to death by a cold, calculating and cruel assailant, the incumbent provincial government and its casino gambling plans. Horse racing, by nature, is predicated upon looking forward. Winners are anxious to repeat, and losers can hardly wait to change strategy and try again. The chance for an opportunity tomorrow is the lifeline of the competition business. What makes this execution particularly galling is that thousands of lives are being upturned and rerooted in pessimism. The structure for a buoyant tomorrow has been regulated to death. When your regulator is your competitor and uses this unfair leverage to your disadvantage, optimism dies.

John Hayes Stable Ltd is a small business located on a farm at Beamsville. We presently employ thirteen people, nine full-time and five part-time. Our business is training and racing standardbred horses. The racing mainly involves day trips from our farm to Ontario racetracks. Our client list numbers approximately 16, and these people come from as far away as Montreal and New York City but mostly are Ontario residents.

Allow me to characterize our small business as defined by payroll records and 12-month expenditures from our last financial statement. Data to that effect are in front of you; I submit figures spent by our small business. In an orderly fashion, we have listed expenditures for feedstuffs of \$21,500; farrier services, \$20,000; bedding materials, \$25,000; harness supplies, \$34,000; our total payroll in this period, \$266,000; our total expenditures, including purchase of trucks, trailers, fuel, service etc, on and on, \$675,000. These numbers definitely support the contention that our community is impacted by our business's existence. When you multiply these figures by the number of small business racing

entities across Ontario that are equally imperilled by the NDP's recent gambling initiatives, many communities are going to pay for the heralded benefits of a few.

1550

Further, let's open the casket and view the real victims of this plunder and pillage, my full-time employees. The pessimism engendered in my horse-owning, bill-paying clients is resulting in declining interest. Need I explain that fewer horses trained because of government-created pessimism means fewer employees?

A brief description as follows defines that these people are vulnerable if their employer and the industry in which they've invested their training aren't financially viable. Believe me, any reduction in current purse levels makes racing financially questionable.

Anticipated declines in wagering of 30%-plus, and these are declines that have been experienced in every other jurisdiction where casino gambling has been introduced, don't bode well for my employees. Again, you have data in front of you that briefly outline some characteristics on the age, sex, length of employment, previous employment and education of my full-time employees. As you can see, a lot of them are not easily transferable.

Although my presentation has been satirical in tone, my message is brief but deadly serious. I'm fighting for my business life. I've invested 20 years of time—make that 40 years if you include my father, a co-owner of John Hayes Stable Ltd—and significant dollars in land, horses, equipment and people, only to find myself being legislated out of existence. Fiscal mismanagement, a trained-seal mentality and vested-interest tub-thumping are resulting in a "my way or the highway" government. But, I suppose, what else can I expect from a government that doesn't know which of its employees is coming to work tomorrow?

I respectfully submit my submission. Linda and I would be happy to entertain questions on this subject.

The Chair: We have about 22 minutes left. That would be about seven minutes per caucus to ask questions. But I did have an opportunity to read over Ms Lockey's written submission, and if you would like to quickly read that into the record, that's quite acceptable.

Ms Linda Lockey: Thank you. My name is Linda Lockey. I am the co-owner of Escarpment Farms Ltd. I am also the second vice-president of the Niagara South Federation of Agriculture. We are very disappointed that the efforts of our local OFA field representative to book a timeslot for a verbal presentation to the hearing committee was not successful.

Escarpment Farms Ltd works 500 acres in the town of Pelham. Approximately 25% of our gross income is derived directly from the horse racing industry. Government policy appears to be heading towards the preserva-

tion of agricultural lands, yet the casino policy is one more nail in the agricultural coffin.

We are trying to provide a decent standard of living for our families and, in the process, are preserving the family farm. If we lose another 25% of our income, our family farm is in real danger of becoming another bankruptcy statistic. We have just had another family-owned feed mill declare bankruptcy due to a sagging agricultural economy, so the threat of bankruptcy is real.

There appears to be an attitude among some local urban MPPs that this is a rural issue. If our farm goes under, we take with it 35 acres of high-quality juice grapes, 200 acres of milling grain and 75 head of beef cattle, all of which end up on the dinner plates of the residents of the Niagara Peninsula. It is our respectful submission that this is not only a rural issue but one that affects every resident of Ontario who eats.

Escarpment Farms is just one of the many farming operations in the Niagara Peninsula which rely on the horse racing industry for their family income. I have not even touched on the economic spinoffs this farm creates in the local community. Tractor dealerships, tire repair businesses, insurance companies, both vehicle and buildings, and veterinary clinics are just a few that are impacted by Escarpment Farms.

I urge you to please support the agricultural community in opposing the casino gambling issue. Thank you for your attention to my submission.

Mr Martin: Thank you very much for a very dramatic presentation to highlight what you feel, and others in your industry who have come before us over the last three weeks have presented in a very eloquent way the challenge that's out there for you as the government moves forward with this initiative.

I daresay the reason we take our time in this and do it, as we've said so often, cautiously and carefully is that we know it's not a simple thing we do and that it will have ramifications for different communities, yours in particular.

We are doing what we can, although I'm sure in the end it probably won't be as much as you would hope. But we will do what we can to try to minimize the impact on your industry, because we certainly have people within our caucus who speak very eloquently re the concerns of rural Ontario and the farmer. We are for ever, as late as last night, into discussion with each other around how we might do things that would be in the best interests of your industry.

However, having said all that, we find ourselves in some very difficult times, and various industries, your own included, are certainly experiencing some difficulties. Yes, we're introducing a new kid on the block here that will be part of the industry of gaming, that will be seen as your competition. I would ask you, knowing that you and probably others realize that this

is coming sooner or later—the pilot project is going ahead in Windsor, and if that's successful we'll be looking at other opportunities—is there anything we could do to put your industry in a better position re the whole economic climate out there and this in particular?

Mr John Hayes: If I could answer that, I feel very positively that one giant step is to tax horse racing at the same level you're going to tax casino gambling. It's anticipated that casino gambling is going to be taxed half of what you're already taxing horse racing. Also, I suggest that you tax horse racing in the same structure as the one jurisdiction where racing bottomed out and showed some evidence of revival, that is, in the state of New Jersey, and the reason is that racing is taxed at half a per cent. They are taxing it minimally compared to Ontario. In Ontario, horse racing is taxed to death.

The bottom line is that I think there are two choices. There's the choice of not having casino gambling, which is the first choice. The second choice is that if we have to have casino gambling, at least let us compete, and by competing you have to have a tax structure on our industry that is favourable compared to the competition and not overtax us and undertax them. In New Jersey, they're taxed at half a per cent and they show signs of being able to live with it.

I sincerely hope you can examine this and realize that when the taxation was initiated on horse racing, horse racing was a monopoly in the gambling business, but the same pressures have continued to be applied to horse racing as our legislators have gone into competition with us and brought in all forms of lotteries and then added to that casino gambling and taxed them less than they're taxing us. In other endeavours of life you would call that immoral or unethical, but in the practical business world maybe we'll tone that down and suggest that you consider the ramifications.

1600

Mr Sutherland: We had the Coopers and Lybrand consulting group in to the committee last week to talk about the report that they had done, and one of the issues they were to examine was the horse racing industry. They looked at the situation in New Jersey and, based on the information there, their reports were about 40% impact in New Jersey. Of course, they have 12 casinos in a very concentrated, limited geographical area, so if you look at it the way they did, as each casino came on, it was roughly about 3% impact of an individual casino.

Given that information, given the fact that we've heard today that the proposal for one in this area is to go after all the tourists who come to this community, some 12 million, and use them as the target group—and we've heard about making it even more particular than just tourists, but the foreign tourists who are coming here—do you really think that casino gambling is going to have the type of impact that some people have been

suggesting on horse racing, when you look at the fact that you're only going to have one in this area and the fact that the market we've heard from the proponents in this area is to go after foreign tourists?

Mr John Hayes: It's a statistical fact that in every jurisdiction where casinos have been introduced, they have impacted on racing 30%-plus in terms of decline in business. It's not my opinion; it's the experiences that have preceded us. End of story.

Mr Sutherland: If I may, you've said that the government has not done anything for the industry. The government certainly supported the Ontario Jockey Club in its bid to bring the Breeders Cup, in terms of the money it's putting into the racetrack improvement program. The government has been aware of the concerns of the industry and has been trying to respond to those concerns of supporting it.

But as I say, the information coming out of the Coopers and Lybrand study indicated that the impact per casino was about 3% to 4% in New Jersey, and that's why their estimate in the study comes up at roughly around maybe a 5% impact on that industry.

What is the industry doing to attract new people to come out to the industry? We know what the demographics are. We know that it has not attracted a lot of younger people into coming out to its facilities. What do you see the industry doing to respond to increased competition overall, let alone outside of casinos?

Mr John Hayes: I think you're trying to turn the table and tell me that it's my fault, but what I'm suggesting to you is that through this climate, our competitor has been our legislator. The government is our competitor. The government is in the gambling business through continuing added forms of lotteries and now adding casinos. So what are we trying to do? We're trying to prevail upon the government to use common sense. I mean, they are just continuous added forms of gambling in a limited environment.

I'm not sure what you're trying to get me to say, but, for instance, when the government added Pro Line sports betting last fall, that immediately impacted, depending on whose numbers you're using, 6% to 8% on Toronto wagering. Immediately. So what do you want me to say?

The obvious answer is, let the government get out of the gambling business, but it's not going to, so at least treat us fairly. I mean, you can't tax us twice as much as casinos and say you're treating us fairly. I'm not sure what answer you're trying to derive of me, but it's obvious that in every jurisdiction where casino gambling has been introduced, the impact has been large. We only have to go to the one Canadian example, in Manitoba, and it's very obvious how devastating it's been there. Correct?

Mr Sutherland: But in Manitoba they introduced

video slot machines at the same time, and we're not at this time going to do that. That makes a big difference.

Mr John Hayes: Of course, but what you're trying to do is separate the hairs and define how much width of which hair contributes to what. The point is that it is the government-sponsored gambling business that we're competing with, and that's what happened there and it destroyed them. Exhibit A.

Mr McClelland: Mr Hayes, I wanted to just comment on my friend Mrs Sullivan's suggestion and logic. It seems to me that the Coopers and Lybrand study was predicated in large measure, particularly with respect to the square footage of a casino, to maximize the potential for the market. So how one can draw some sort of quantum leap of logic and say that there's a percentage linked to the number of casinos is totally absurd, quite frankly. I mean, it's absolutely absurd to say that you develop a casino to maximize market and then say that the erosion, in terms of the horse racing industry, is a function of the number of casinos. That just doesn't wash and it's the most absurd logic, quite frankly, I've heard in the past number of weeks in this hearing.

What I wanted to ask you was a comment with respect to the Coopers and Lybrand report that talks about the impact and the numbers that the government is relying on, numbers that impact the horse racing industry that did not look at the indirect and support jobs. I'd like your comment on that. They have said it will cost 5% to 10% in terms of the marketplace in the horse racing industry, but did not delve into the secondary support behind your industry.

Also, I think you already got into it, quite frankly, the broad range of discrepancy between what your industry has said, the experience, and the government's numbers, but I think we've already begun to touch on that.

So essentially, the indirect jobs, and from your own experience, the impact that this will have on your suppliers and the people that you work with and the people that you indirectly support. If you want to amplify some comments on that, I think that it's important that we understand the total impact and not just within the direct, if you will, ownership and horse owner.

Mr John Hayes: I think that Linda's presentation is the singular example of where the spinoffs from the direct horse racing end up and part of the spinoff direction. Linda and I are not here as representatives of every statistical analysis of the industry; we're small business people. If you're trying to be very critical of me because I can't stand here and take a Coopers and Lybrand report and defend for, against or around it, I think you're being a little harsh. I'm a small business person. I know how it affects John Hayes Stable. I know what it costs me to operate, I know how many people I employ, and Linda has given you a perfect example of a farm operation that sells to me and what

it means to her. Of course, if she can't operate her—

Mr McClelland: I'm not being critical of you. What I'm suggesting is that the numbers you are suggesting—

Mr John Hayes: You called me absurd a little while ago; that's a critical term.

Mr McClelland: No, I didn't. I did not say that. I said that the logic over here is absurd. You missed it altogether, with respect. I said that the logic I've heard here is absurd, and it says that the number of casinos is prorated. In fact, quite the contrary: I'm saying I look at your numbers and they're much, much more realistic, that the horse racing industry numbers that you've put forward are borne out of your experience and the reality of the marketplace day to day, and to take some sort of abstract reference to percentages as a function of casino I think is absurd.

Mr John Hayes: My apology.

Mr McClelland: Quite the opposite; I'm saying that I buy your numbers and I'm asking you to elucidate on that because I think that we've got to look at the second layer, the impact right down the pyramid, that it's not just the direct job, and I think you're making the point very well. I was asking you to elucidate on that because I think we're being too narrow in terms of the downside impact. I think the impact will be greater than what the government is giving credence to. In fact, it will not be 5% or 10%. I'd take much, much more confidence in the numbers that you're bringing forward and the economic negative impact that you're suggesting. I wanted you to elucidate on that somewhat and underscore that argument if you will.

Mr John Hayes: Thank you for clarifying that for me.

The Ontario Federation of Agriculture and its affiliated coalition membership represents 40,000 to 50,000 people, depending upon who is interpreting the membership numbers, and all of these people are impacted by the next level above or around them. Linda is the example, my truck dealership is an example etc.

So we're talking about a lot of people potentially down the line. Not all of them are getting directly broad-sided. The first layer gets directly broadsided, but after that, there is impact, and these are numbers that the Ontario Federation of Agriculture and the Coalition of Horse Racing Against Casino Gambling have generated, and those are the numbers that I'm presenting to you.

So yes, it's multilayered in its impact. It's one thing to project what might be as far as generating something; it's another thing to see what actually is existent right now and where it is going, because we have the examples before us of what each increment layer of lottery input has done to racing in their gambling forms, and added increment layers are just going to project the same way they have in other jurisdictions. I hope that

has touched on that.

1610

Mr Carr: Monte, you can have it.

Mr Kwinter: Mr Carr has gracefully allowed me to just make an observation. Mr Hayes, I take your point and I'm very supportive of the idea of at least giving you a level playing field in terms of the taxation, but just to put it in its terms so we know what we're talking about, the total wagering in Ontario is \$1.85 billion a year. The takeout by the provincial government is 7%, of which 2% goes to the Breeders Stakes, so it's 5% that the government actually gets. The 2% is rebated.

What that means in real dollars is about \$54 million, and if they were to have the same tax as, say, New Jersey, it would be about \$5 million, which means that \$50 million would be left in the industry, which would make the difference, you would still be probably impacted by casinos, but it would certainly go a long way to keeping you somewhat competitive.

When you consider that the casino in Windsor is projected to net for the government between \$110 and \$140 million, if they just took a portion of that one casino, they would go a long way in keeping the racing industry whole and your industry whole. I think it's important that that knowledge be in the record.

Mr Carr: I appreciate your coming, particularly on such an emotional issue. You said you're fighting for your survival. Just to clarify, Carman was talking about the absurd figures from the government, not your own, because we appreciate your coming forward.

The problem people have, as you've probably heard today, is that the people in Niagara are looking to this for jobs. What they don't realize, what the OFA and the various horse racing people have come forward to tell us, is that we're going to lose jobs. The numbers are 20,000, whether it's one for one, but we're going to have a tremendous impact on rural Ontario where we're already having problems because of the agriculture. If the casinos come in in Sault Ste Marie and one in Niagara, everything in the Coopers and Lybrand report, do you think these people you've listed here will be employed?

Mr John Hayes: My suggestion is that these people will have a difficult time finding employment readily in the casino business if there's special training required.

Mr Carr: You feel it will put you out of business?

Mr John Hayes: Definitely. Why the tone of my presentation is on the edge is because, as I said, I'm fighting for my business life. I can't take any more abuse and stay in business. John Hayes Stable is dead in five years if the projections that have been put forward for casinos in the future come to fruition.

Mr Carr: I appreciate that because I think it's important for the people of Niagara to know that. Of course the Niagara region encompasses other areas, and

I don't think the people in Niagara Falls have had an opportunity to hear that. We in this committee have, having sat in Toronto. The people in this city are looking forward to casinos, and you heard the mayor and everybody, but it is interesting to note that there will be job losses as a result of the casinos coming in. I think what we're going to see is a shift from some of the rural jobs in horse racing to the urban area, and hopefully the people in all the cities and towns that want it will reflect on what it's doing to an industry, and probably not just an industry but a tradition in this province going way back.

Again, I want to thank you for coming forward. I know it's an emotional issue and it's tough to do, and hopefully the government will take that message, particularly some of the interesting points you made about the tax, and do something to assist you. Again, thank you very much.

Mr John Hayes: Thank you to the committee.

The Chair: Ms Lockey, Mr Hayes, thank you very much for presenting before the committee today.

BOURNE LEISURE GROUP LTD

The Chair: Next we have Ian Wilbraham, divisional director, and Wilbert Dick, director, representing Sherkston Shores.

Mr Ian Wilbraham: Good afternoon, Mr Chairman and committee members. Along with our presentation, we do have some visual aids as well, which are displayed over there. My name is Ian Wilbraham and I'm going to make a presentation on behalf of the Bourne Leisure Group Ltd.

Bourne Leisure Group are the owners and operators of Sherkston Shores, a 550-acre lakefront resort in Port Colborne, illustrated on the map. Bourne Leisure is a British company and I am Bourne Leisure's divisional director responsible for our North American operations, which include Sherkston Shores as well as a large recreational vehicle resort in Sarasota, Florida.

I'm assisted in this presentation by Wilbert Dick. Wilbert is a director of Sherkston Resorts Inc, our Ontario operating company, and Wilbert, as the former Niagara regional chairman and former mayor of Niagara-on-the-Lake, has over the past two years brought to our board considerable insight and assistance in developing the tourism goals for our resort within the peninsula.

Bourne Leisure Group Ltd is one of the world's largest privately held recreational vehicle resort owners and operators. The company was formed in the 1960s and maintains its head office in a new office complex in Hemel Hempstead, England. Bourne owns and operates 30 resorts including Sherkston Shores and Sun-n-Fun in Sarasota, Florida. In the UK, the resorts are all in coastal holiday regions and vary in size from resorts with 1,600 sites to smaller 350-to-400-site resorts.

Bourne is a family business, selling holiday homes and catering for family holidays. The company's annual sales exceed C\$150 million and the company has a net worth valued at \$200 million. It employs 2,000 people, plus almost twice that number seasonally.

British Holidays, Bourne's operating company, will sell in 1993 almost three million holiday-bed-nights including approximately 72,000 at Sherkston. The resorts mainly provide seven-day and 14-day holidays, although some shorter packages are available. In total, the company controls over 22,500 caravan or RV sites within its resorts. Approximately 1,500 of these sites hold caravans or RVs owned and operated by Bourne. The remainder are privately owned and rented by Bourne on an agency basis.

In the UK, the UK resorts earn their profits from a combination of caravan sales, rental income, retail sales, food, family venues with licensed facilities and amusements. Family amusement arcades account for approximately 24% of the out-of-pocket spend by the average holiday-maker at a Bourne UK site and produce approximately 22% of Bourne's total annual profits.

In the UK, the gaming legislation under the Gaming Act of 1968 permits two levels of gaming machines within a controlled environment, not associated with a casino facility. At the higher level, gaming machines are permitted within membership-controlled facilities. These machines operate on a 40-cent stake with a maximum cash payout of \$400 per play. The UK legislation also limits the number of machines in each venue and an age restriction of 18 years of age is in place.

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At the lower level, AWP machines, amusement with prizes machines, are permitted in unlimited numbers within more conventional amusement arcades, as we have here in Ontario with video machines etc. These machines operate on a 4-cent, 10-cent or 20-cent stake, and the maximum payout is \$6 in cash or \$12 in tokens. Tokens cannot be redeemed for cash, only prizes or further plays. The minimum allowed payout for these machines is set at 72%. All venues for either type of machine must be licensed in the UK by the Gaming Board, which includes personal investigation by the Gaming Board of all individual licence holders.

This aspect of gaming has not been addressed by Bill 8 or by the Coopers and Lybrand report and we feel should be considered by your committee.

The remaining 76% of holiday-makers' spending money is spent in family venues, licensed bars and on food and shopping. These profitable operations allow state-of-the-art holiday facilities, landscaping and environmental programs to progress more speedily.

Looking at income and profit ratios: Of the profits made after dividends of our group, approximately 30% goes to the government in taxation. The majority of the

remaining 70% is reinvested in the properties and in acquiring new development opportunities. Although caravan sales account for the biggest share of our profits, this income stream is susceptible to economic influences because of the high-ticket items involved. The amusement arcade revenues, however, have consistently risen year on year, echoing cultural trends towards small indulgences in place of larger capital expenditure.

The Bourne Leisure Group started business with one resort, grew organically, acquired a small group of resorts in 1979 and has continued to acquire sites ever since. Currently, their sites number 30, with five-year development plans in place at the majority of the sites. The family holiday business has grown exponentially in the last 10 years and looks set for healthy growth of 20%-plus per annum.

Holiday home sales have been hit, as have all businesses, by UK and world recession; however, Bourne have probably sold more caravans and RVs than any other resort operating company in the world.

Of our recent developments, Bourne's profitability, and in particular the holiday business, is based on investment in the provision of facilities in attractive settings operated by friendly staff.

During 1992-93 at Haggerston Castle in Northumberland, England, Bourne built a tower complex, a family venue providing over 30,000 square feet of amusements, clubrooms and indoor pools at a cost of approximately \$4.5 million.

At Sherkston, the total expenditure to date exceeds \$8 million. This has provided a swimming pool, a miniature golf course, a baseball diamond plus park home and RV sites and an extensive landscaping program. In the UK, these investments are all funded from cash flow. However, at Sherkston, this has all been new cash injected into the business.

Bourne Leisure was started as a family business and remains so. The founders, the three principal stockholders, continue as executive directors. The foundations of the business lie in the concept of family resorts, family holidays and holiday home ownership.

Sherkston Shores follows this philosophy and will continue to do so, and in so doing, it ensures long-term commercial success. Since Bourne acquired Sherkston in 1988 for \$8.5 million, the money to guarantee future success has been poured in at the rate of almost \$2 million per year. The park now has zoning for over 3,000 sites as well as increased leisure facilities.

In the next seven years, with or without the casino project, Bourne expects to invest at the same or increased levels. Profitability is obviously the key to this continuing investment program. There is no doubt that permission for a resort hotel casino and/or an amusement arcade would positively affect this investment program.

Sherkston Shores was originally set up in the early 1960s as a camping and RV site. When Bourne Leisure acquired the business, it was rundown, holiday-makers were a rarity and the reputation of the resort was deteriorating rapidly. In the past five years of Bourne ownership, holiday bookings have doubled year on year, the goodwill has been restored and break-even has been achieved. The future success will depend on Sherkston's ability to reinvest in profit-making facilities while improving the holiday home sales figures. The projected target of one million holiday nights, if achieved, will be the measure, not the engine, of profitability.

It's taken us almost five years to obtain the zoning necessary for the redevelopment of the Sherkston site. During this time, Bourne has gained experience of Sherkston and the Canadian and the USA market. This has allowed the latest concept development plan to be produced in the confident knowledge of the needs and demands of the business. The casino project and the potential of including family amusements in the plans opens up further exciting possibilities for Bourne Leisure, for Sherkston, for the whole peninsula area and for long-stay tourism generally.

Sherkston, as I said, is working on a phased investment plan, and as soon as permissions are finalized, Sherkston will begin work on a new sewage treatment plant. This will be introduced in phases with a total cost in the region of \$4 million. The landscape development is a rolling program. More than 1,000 saplings and many thousands of shrubs and flowers have been and will continue to be planted, with expenditure counted in the millions of dollars. In addition, plans for a nine-hole golf course are being developed with specialist consultants. Total expenditure on these projects will exceed \$5 million. The major program under way relates to the creation of park homes, RV and tenting sites. To complete the sites for which permissions exist will cost almost \$11 million.

Mr Wilbert Dick: I've been asked to cover some of the aspects directly in Sherkston as they affect the Port Colborne and the Niagara communities.

Since Bourne acquired Sherkston, direct and indirect employment amounts to 250-plus persons with an annual payroll of \$1 million; also, representing a local expenditure, including realty taxes of \$2.5 million.

Green Sherkston: We have not overlooked the aspects of the environment. In the UK, most Bourne resorts adjoin nature reserves, coastal protection zones or sites of special scientific importance. At Sherkston, the company has begun a \$2 million rolling landscape program, has spent \$250,000 improving the shoreline defences and committed a further \$500,000 to protection of sand dunes and the environmental protection zones.

Sherkston's current marketing expenditures: Sherkston's core business is selling park homes and recreation vehicles. In order to increase this business, almost

\$600,000 was spent in 1992 on press and radio advertising and other forms of promotion.

The resort as a whole spends a further \$300,000 on brochures etc, and in addition, support marketing from the UK accounts for at least a further \$400,000. This marketing spend heavily emphasizes not only Sherkston, Lake Erie and Port Colborne, but also the wider pleasures of Ontario. Local facilities such as the Sugar Loaf Harbour Marina, recently built in Port Colborne, and tourist destinations such as Lake Erie and Niagara Falls are also heavily promoted.

Tourism: Sherkston is a major tourist destination in its own right with, research confirms, a very high recall rate. It currently attracts approximately 100,000 long-stay visitors and 50,000 day visitors each year.

Sherkston recently played host to the National Jet-Ski Championship, an international volleyball tournament and many other large-scale events. The largest sandcastle ever built in Canada, the Gulliver figure on the Sherkston shoreline, attracted over 20,000 visitors. The spinoff business is incalculable, but significant for all the Ontario tourist attractions.

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Mr Wilbraham: Sherkston income shortfall: Despite injecting capital at the rate of almost \$2 million per year, to date the investors in Sherkston have drawn no dividend. The resort at the moment has not reached critical mass. It does not have sufficient developed sites with park homes and RVs in situ. It does not have the wide range of leisure facilities in place yet, although these are in progress. Critically, it does not have the highly profitable family amusements and licensed venues of an equivalent UK site. As a result, the average income per site in one of our UK parks is \$4,146. That is almost double what is achieved at Sherkston of \$2,375.

Amusement machine statistics: The amusement machine and arcade business earned the UK government approximately \$450 million in taxes in 1992. This figure is expected to increase to at least \$500 million and possibly \$600 million in 1993. Accurate figures are unavailable, but based on an average tax percentage of 10%, this would extrapolate to a total estimated gross revenue of approximately \$5 billion. This tax is in the form of individual machine licences, and in addition to these fees, value added tax of 17.5% is levied on all machine revenues.

Many holiday destinations and individual resorts rely on the profit from these facilities to underpin their businesses. Currently, this cash boost to the Canadian economy and the tourism and resort business is denied by restrictive statutes. Relaxation of the gaming laws will benefit jobs, tourism and the economy.

Sherkston as a potential casino site: Sherkston, should it be selected as a site for a casino and resort hotel, can

offer many unique advantages. Foremost is the Wyldwood beach site of approximately 50 acres, with more than a mile of beach frontage, next door to an established long- and medium-stay holiday business. Access via highways and local roads is excellent, and the proximity to the US border and airports is a further advantage. Add to this the controls available through developing a greenfield site managed by a vastly experienced resort landlord which holds more than 50 UK gaming licences controlling a specialist operator, and Sherkston can offer a winning combination.

It is our opinion that a casino located within the Niagara Peninsula will generate revenue almost wherever it is located. Sherkston Shores is already established as a long- and medium-stay tourism resort destination rather than a day-visitor resort, and therefore a casino complex adjacent to such an established long-stay resort will have tremendous economic benefits for the whole peninsula.

In summary: Why a casino at Sherkston? An unsurpassable location on Lake Erie; up to 50 acres of development land available; proposed site has over a mile of beach frontage; an established long-stay holiday business with resort facilities; planning a greenfield site will allow proper controls; Bourne as landlord will ensure a respectable business environment; improved employment opportunities for the Port Colborne and Fort Erie labour pool; a politically non-sensitive site away from an urban environment; excellent access to site, highways, US border and airport; resort hotel will spread tourist spend throughout the peninsula; spinoff day visits to Niagara and Fort Erie will increase; it will attract further UK investment into Canada.

Sherkston has a bright future, with or without the casino project. However, a gaming permission to site a family amusement arcade on the resort is fundamental to profitability and our ability to speed up our development. The Coopers and Lybrand report to the Ontario casino project eloquently makes clear the enormous potential benefits for job creation, tourism development, community economic development, the creation of new viable industry and revenue generation.

The Bourne Leisure Group Ltd trusts that this presentation showing the real and potential effect on Sherkston Shores, by relaxation of gaming controls, has been helpful in its consultation process.

Mr Kwinter: Mr Wilbraham, I'm a little confused. Under the proposal by the government, if they go ahead and expand beyond Windsor, they would designate Niagara Falls as a site. Are you proposing that site be at your location, or are you saying you would like to have a site in addition to that?

Mr Wilbraham: There are two points we're trying to make. One point we're making is the question of the amusement arcades, which would be independent of a casino. We felt that this was the right forum to address

that issue, as it doesn't seem to have been addressed. Within our existing facilities, it will be of considerable benefit to have a family amusement arcade. That was one issue. The second issue is that we would like to propose Sherkston as a venue for the Niagara Falls casino. We're putting forward our site as a venue for the casino in the Niagara region.

Mr Kwinter: Just a point of clarification for you: The reason we haven't discussed the VLTs, which are the gambling machines that you're talking about, is that we're discussing Bill 8, which is the enabling legislation to provide for the establishment of casinos. There's no mention of VLTs in that particular legislation, and that was the reason it hasn't been discussed. It's certainly an area that people have talked about informally, but that's the reason why it isn't being addressed.

The other thing, I think it's important so that there's no misunderstanding when you look at the criteria, and I'm not trying to speak for the government, but when you look at its statement of intent, it is to go into a community like Niagara Falls, which doesn't mean on the shores of Lake Erie, but in Niagara Falls for all of the benefits that are supposed to accrue. Just so that there isn't misunderstanding that the sites in this part of Ontario are up for grabs, it's just a matter of Niagara Falls and where it is in the city of Niagara Falls.

Mr Dick: It was not our understanding that the city of Niagara Falls particularly has been approved or is the only location in Niagara under consideration. The Niagara regional presentation talked about a presentation in Niagara.

I think the government has sufficient information to prove that where you put a major facility, a magnet attraction, the larger the metropolitan area, the less benefits spread out into the province, to other areas of the province. In other words, the dilution factor of putting this in a major urban centre like Niagara Falls is not as great as if you put it in a more rural area. It spreads the benefit to a larger area than putting it in an urban area.

Also, I think we're quite aware of the dangers and the concerns regarding some of the social impacts. We feel that a place like Sherkston lends itself more to dialogue with the community in achieving certain controls which would be easier to control in such an environment than they would in a more urban centre like Niagara Falls, and a little bit removed from the border.

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Mr Kwinter: Just as a further comment, I think it would be fair to say that even the most ardent proponents of casinos in Niagara Falls or any other community, if they had their druthers, if they had their choice and things were booming, would not accept the casino. I think that's a fair statement.

I think what is happening is that those who sort of bit

their tongue and said, "Well, if casinos have to be, they have to be," but the only thing that's driving that is that they want to be able to maximize what is here. They're looking for it as a catalyst to get the restaurants and get the tourism business and everything going to help the city of Niagara Falls. I think that is what's driving this thing. Without that, I don't think you'd have any support, I really don't.

Mr Carr: Thank you very much for a very interesting presentation. Do you see if in fact the casino does come to Niagara Falls, you getting a spinoff benefit anyway just by the close proximity?

Mr Wilbraham: I'm sure there would be spinoff benefits, yes. I think the one other point that we have tried to stress is that what we do have to offer at our Sherkston resort is a relatively long-stay destination. In other words, most of our customers stay at our resort for a week to two weeks; probably our average stay length is five nights. We feel that by drawing those type of people into the community who are going to stay for a medium- to long-term stay, the benefits for the whole region will be greater than people coming to a facility, say, like Niagara Falls, which is more into the day-tripper market.

Mr Carr: Do you see, if Niagara Falls gets a casino, your being able to put amusement machines in and getting some of the spinoff in that regard as well and in making it almost another attraction to the entire area where people would come down and go there and then maybe come over for some of your activities? Do you see that happening as well?

Mr Wilbraham: I think that definitely would happen. That would be very positive for us, yes.

Mr Carr: So the best case is to have a casino in your area. The second best is, though, to have it in Niagara Falls.

Mr Wilbraham: That's probably fair to say, yes.

Mr Carr: Thank you and good luck—a very good presentation.

The Chair: I want to thank Mr Wilbraham and Mr Dick for making the presentation this afternoon.

J. TOTHFALUSE AND ASSOCIATES

The Chair: Next is Joseph Tothfaluse, president of J. Tothfaluse and Associates, tourism consultant.

Mr Joseph Tothfaluse: Thank you, Mr Chairman, for allowing me to speak on this matter. First, may I say that I will not get into any of the economic background of Niagara because it has been covered fully. I will also not get into the comparison of one city to another because I believe personally, myself, that Niagara Falls cannot be compared with any other. Also, before I start, there will be, I'm sure, in my presentation, one point that some people may take exception to. May I just point out right now that I respect the Good Book and I'm also a realist. I only state it as I hear it.

To go on, tourism is the largest employer in the world. Niagara Falls is the heart of Canada's tourism. Niagara Falls is unique. It has the potential to draw visitors from the vast world market. In order to maintain its uniqueness, Niagara Falls needs a total new image. Beautiful cities can be found in every country in the world, but not another Niagara Falls.

Niagara Falls, being one of the world's natural wonders, possesses magnetic powers recognized and accepted around the world. These powers control the tourism industry in the Niagara area. Niagara Falls is a priceless jewel in Canada, and Ontario is very fortunate in having this jewel in this province. The magnetic power of this famous jewel must be capitalized upon. By so doing, we can change the image of the whole tourist industry for the next century. The potential to achieve this is as great as the imagination of the mind.

The key to success is to respond to the changing needs of the tourism market. This wonderful tourist engine is obsolete and totally worn out. It has faithfully served its purpose. Now, drastic measures must be taken to create a state-of-the-art rocket to propel the tourist industry into the future.

Having a vested interest in the community's affairs, I have undertaken this study to provide views pertaining to a change of image for a new direction for the tourist industry of the future.

The TCC image: Tourism, conventions and casino image. Its purpose is to encourage and strengthen the economic base of the Niagara region.

Niagara Falls must meet the needs of older travellers, families, youth and children, the well educated, the prosperous and the increasing number of international tourists who have the choice of attractions worldwide and are demanding higher-quality goods, accommodations and services.

The challenge for Niagara Falls is to establish a suitable year-round, world-class destination responding to the needs of a wide range of visitors. To achieve this, a new theme must be developed that will create images of Niagara Falls as a destination for visitors from all market segments—a theme renewal that ensures a unique and fresh experience for both the first-time and repeat visitors.

To extend the length of stay, Niagara Falls and the parks system will continue to attract a large volume of tourists, including repeats. The expectations of these existing visitors challenge the city and region to fully service their needs for several days, and they will come during the shoulder and winter seasons.

The TCC image will entice upgrading services and facilities, including world-class accommodations, restaurants, shopping, new attractions, entertainment—above all, offer good value.

A quote from the economic impact study:

"A total of 10.9 million person-trips to Niagara Falls are forecast for 1987. To our knowledge, this makes Niagara Falls one of the most substantial tourist attractions in North America.

"The total number of person-trips forecast for Niagara Falls is similar to that experienced by Orlando, Florida, the home of Disney World, which receives some 10 million overnight person-trips per year.

"The major difference between Orlando and Niagara Falls is the length of stay of visitors.

"In Orlando, some 90% of visitors stay overnight and the average length of stay of overnight visitors is just under six nights.

"In Niagara Falls, only 30% of visitors stay overnight and the average length of stay of overnight visitors is 1.5 nights.

"The level of development and economic activity generated by tourist activity in Orlando is consequently far greater than that generated by a similar number of visitors to Niagara Falls."

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A quote from the Tourism Tomorrow government study:

"The international convention and meetings trade is highly competitive. It is not uncommon for some US cities to spend as much as \$6 million to land a major convention. Canada will have to be clever to protect its investment and market share from cut-throat competition.

"An aggressive marketing strategy aimed at the \$35-billion-a-year US market is essential. As noted earlier, Canada already attracts about half of all US conventions held outside that country, and even a modest increase in that share would add millions of dollars to our total travel receipts."

Statistics tell us Canadians spend 17 times more tourist dollars per capita in the US than US tourists spend in Canada. These statistics are widening annually. I believe these statistics tell us something very important. The future tourist expectations for entertainment enjoyment are becoming very sophisticated. We do have a major challenge, from not just the US but all countries of the world. They are all making tourism their number one priority for growth in their economy.

For example, Hungary, with a population of approximately 11 million, half the size of Ontario, saw tourism as a strong vehicle in their economy a few years ago. Tourism at that time attracted some 3 million visitors annually. Since their upgrade in tourism, awareness of tours of the country, accommodations, conventions, conferences and nine major casinos in Budapest, the latest opened in December 1992 by investor Sylvester Stallone, have increased tourism dramatically to over 36 million last year. They expect increases to over 50 million in a year or two.

We must tap deeper into the obvious potential, the US market of over 250 million persons and the vast world market. This can easily be achieved by Ontario's advantage of no tax on winnings and 30% currency exchange, especially on US dollars, which would add to the obvious visitors increase by convention and casino business, coupled by the magnetic powers of Niagara Falls.

The federal, provincial, regional and municipal governments are drastically seeking job creation programs and new tax dollars. The following, I believe, will be strongly considered by them.

Niagara region, through legislation, can be designated as a self-governed, legalized open gambling status, a Canadian Las Vegas. This is only sound business sense. Centralizing all efforts into one area would create an oil-gusher type of revenue source for the provincial, regional and municipal governments, which is very much needed at this time. New casino-style hotels would spring up immediately, each with a distinct theme, as an attraction by themselves, creating thousands of jobs immediately and long range, thereby attracting many more millions of tourists and visitors.

Tourism, conventions and casinos are attracted to each other. Las Vegas, the most famous casino region in the USA, is the only region not affected in this recession. They are now realizing that tourism, conventions and casinos go hand in hand. Las Vegas is now building hotels especially for family-type entertainment, theme parks to be open 24 hours a day. In fact, visitors are spending as much time sightseeing and at stage shows, shopping and theme parks as they do gambling.

Niagara Falls is already a family entertainment destination recognized around the world. Therefore, by expanding into conventions and casinos, the city is only completing what is truly needed to satisfy the future visitors' sophisticated needs.

Making the Niagara Falls region a mini-Las Vegas would localize all the operations of the gambling industry. Licensing and protections are much more easily controlled in one area. This could also allow stronger control between casino operators and local and provincial government, minimizing any problem.

The location of Niagara Falls is also very important in this project. It offers four international bridges, two major airports, an excellent highway system and rail and water transportation.

The provincial government would be creating its own cash cow to satisfy financial needs, an important vehicle for the future.

What future is in sight for Niagara Falls in this proposal?

Las Vegas stats as of April 1993: 80,000 rooms, with 97% average occupancy annually; major hotels average 3,500 to 5,000 rooms each; 11,000 rooms under con-

struction; 21,000 room permits issued, not yet started; in 1992, over 21 million persons flew in by plane, plus bus, train and car; all establishments and municipalities offer excellent security systems; cleanliness and hospitality with organized services; average home taxes \$600 to \$800 per year; no corporate taxes; no school taxes; all businesses pay 50% of net profit taxes; all construction jobs operate 24 hours a day; high sensitivity to industries relocating or starting up in the area.

MGM Hotel is planning a 24-hour-a-day theme park with a teenage hotel tower with special teenage entertainment.

Controlled gambling and free lessons; gamblers out of control are stopped and helped by counselling.

Las Vegas council sent letters to all the residents soliciting help to find 25,000 construction workers needed for projects. Also, 2,000 teachers are needed for new schools.

A hotel under construction is planned to open in October 1993 and is fully booked for 14 months in advance.

High-quality hospitality is experienced everywhere: casinos, malls, restaurants and on the streets.

Reasonably priced entertainment, meals and free drinks of your choice while gambling make tipping earnings very high.

I strongly believe that if local authorities approach this suggestion in a businesslike manner, pointing out the full benefits to all concerned, the presentation will get the full attention of the provincial government, which could consider it as a viable solution to a great part of its problems and a viable alternative to job-cutting and tax-raising to pay down the large deficit burdening everyone at this time. This could turn the economy of Ontario around in a very short time.

Locally, the advantages would be the greatest, a totally new image. With the coming of new establishments, new markets will open, adding to the family visitors, the large convention business and the ever-popular casinos.

The spinoffs can only be judged by the imagination and effort given to this concept, creating lower taxes and high employment. And yes, churches would also benefit from the millions of extra visitors who pack churches, as in Las Vegas, three to four times a Sunday, praying for good luck and giving generous donations.

In order to be the gateway to the rest of Ontario and Canada, as accepted by the provincial tourism study of 1985, Niagara must first be accepted by local, provincial and federal governments as the crown jewel of tourist destinations. In every aspect, this city is the essence of tourism and is incomparable anywhere in Canada. Niagara Falls is unequalled. Therefore, it is imperative that it not be grouped as one of seven Ontario cities bidding for a casino. Instead, immediate action must be

taken to take full advantage of this opportunity Niagara Falls offers, the potential to support several casinos to world visitors.

With proper government-controlled legislation, Niagara Falls has the distinct potential to rival world-class destinations such as Las Vegas and others. The commission here today has the duty to recognize Niagara Falls for its uniqueness and its wealth of potential. Niagara must not be seen as just another city in Ontario in the running for a casino.

My years of experience in all phases of the tourist industry allow me the expertise to express my vision of the future Niagara. It is my hope that these recommendations may contribute in some measure to the success of this endeavour. I will personally support and collaborate with interested minds to further this proposal, whether provincial, regional, municipal or private interests.

I realize that this is a vision, but remember, Walt Disney once said, "Vision is the art of seeing things invisible." This is my vision of world-class tourist-convention-casino destination facilities, the TCC image. Thank you.

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The Chair: Thank you very much for your presentation. I just wanted to advise you, sir, that this is not a commission, it's just a committee of the government. There is a considerable difference, I might add.

Mr Kwinter: I wanted to get a clarification of some of the assumptions you made. You talked about Hungary and you said that it has a population that's half the size. Is it the population that's half the size or land mass that's half the size?

Mr Tothfaluse: No, no, no. There are 11 million people. In terms of area, it is one half of Ontario: in square miles, it is approximately half of Ontario.

Mr Kwinter: You're the second person who has used the example of Orlando. What is the significance of Orlando to this discussion?

Mr Tothfaluse: It's nothing more than to show that Niagara Falls needs more than one pie. It needs a larger pie. It needs more people to stay more than one night. That's all I'm saying, that it can rival those places with convention-casino business coupled with it.

Mr Kwinter: You're also envisioning turning Niagara Falls into a mini-Las Vegas. In other words, you are not looking at just one casino but would like to have this as a miniature Las Vegas. Is that your view?

Mr Tothfaluse: I mean that should one be put into Niagara Falls, it will do what we're saying here, attract world-class high rollers, if you wish, or just world-class people from outside the country etc. If another one is needed, there should be another and another. That's really all I'm saying.

Mr Carr: Thank you very much for your presenta-

tion. You've presented a picture of Las Vegas when you talk about the hotels and the theme parks and the planning and so on. They're obviously years ahead. Do you really think that if Niagara Falls gets a casino, one casino, which is what the government has planned—and I appreciate that you have a vision looking longer than that—US gamblers are going to come to Niagara Falls to one casino when they have the Las Vegas, as you laid out on page 4 there, that just has so many gambling attractions and things that are geared to gamblers? Do you really think they're going to come to a city with only one casino?

Mr Tothfaluse: I personally believe that they would. The reason for that is, Las Vegas, what has it got? Sand. In order for them to go out and utilize some of their outside attractions, they even take you over 300 miles away. We don't have that in Niagara Falls. We have a Niagara Falls they'll come to see anyway. They're coming to see it. You've heard it all day today: 12-plus million are coming now, and they say 30% stay over. If we keep only a small portion over another night, that is a large portion of the industry.

Mr Carr: What you're talking about isn't necessarily attracting new customers. You said, "We get 12 million already." You want to keep them overnight to get more money spent here in restaurants and hotels and so on. In essence it's going to be tough, I would submit, and I'm certainly no expert, to compete with Las Vegas when you've just got one. We all know, and many of the presenters today have said, "We have many fine benefits here, not just the falls but in the whole Niagara area." But isn't it true that the real gamblers, the ones who go to Las Vegas and spend lots of money and go from casino to casino and really spend, with all the options, Atlantic City and the ones down in the States, we're probably not going to attract them. What we will do is hopefully keep some of the 12 million staying an extra day, but isn't it unrealistic to think that Niagara Falls is going to become the Las Vegas of the north?

Mr Tothfaluse: I would just say that, in time, if it does get to that point, and I'm also stressing, if you noticed in here, conventions—if we get the three things working, I do believe that in a rotation-type fashion, we will get the high rollers. We will get the people from around the world, because people already want to come to Niagara. Give them more reasons to come and they will come.

Mr Carr: Thank you. Good luck.

Ms Harrington: Briefly, I just wanted to tell you that what this government has been looking at and studying in Windsor is certainly not Las Vegas and is not like the American model. I won't go into the details, but in the back of your presentation you have included a piece from a Niagara Falls review from July 24 with some quotes from our minister of tourism, Anne Swarbrick, about how she envisages Niagara Falls as a

real gateway to the province and how important Niagara Falls can be. Certainly, that is not Las Vegas.

Some of what she thinks is that we utilize our city, upgrade this city as a family attraction. What we're talking about here when I say the gateway project is the Murray Hill site, which could be available for a tourist centre because it will likely be decommissioned as a hydro plant in the near future. "Swarbrick said the province is looking for ways to boost Ontario's \$17-billion annual tourism to help offset the dramatic losses of jobs and plants in the hard-hit manufacturing sector."

We're working with people all across this province in the tourism business, the hands-on people who know, some from our region but people from all across this province, to have a vision and a strategy for tourism for the next decade or more. Niagara Falls is key to this, and it certainly is not a Las Vegas that we want.

My colleague has a question. Wayne, did you have a question?

Mr Lessard: Yes. This has been a very interesting presentation. I'm from Windsor and I can echo the comments that Margaret Harrington has made that we're not really planning to have a Las Vegas in Windsor either, notwithstanding the benefits that might have to church attendance in our city as well, that have experienced the same decline as they've had here, I bet.

You've dated your presentation May 14, which is long before committee hearings were planned. I wondered for what purpose you had prepared this in May. You must have made this presentation to other people and I wonder what the reception was then.

Mr Tothfaluse: It was supposed to be prepared for the city to work on. It was not done because this started up and I held it for this.

Also, if I may, on your casino situation, I'm merely using Las Vegas not in the perspective of the gambling part of it; I'm utilizing it as the potential of being a major tourist destination; comparable. As I say, with the casinos here, with the convention and the tourism, in popularity we will rival Las Vegas. I'll just say I don't believe we'll ever be a Las Vegas because I don't believe that we'll ever have the laws that they have. But as a tourist destination point, I do believe we could rival Las Vegas.

The Chair: Thank you, Mr Tothfaluse, for presenting before the committee this afternoon.

1710

TRY ANOTHER WAY COMMITTEE

The Chair: Our next presenters are Rev Harvey Murphy and Rev Lillian Porter.

Rev Harvey Murphy: We are the Try Another Way Committee, and we'll introduce the people present: Rev Dan Sheffield representing the Evangelical Fellowship Ministerial Association—he is president of that group of evangelical churches; Judith MacCarthy is coordinator

of the Try Another Way Committee; I'm Harvey Murphy of the Greater Niagara Ministerial Associations; and this is my colleague Rev Lillian Porter. We will be sharing the presentation on behalf of the committee and members.

First of all, we want to thank you for this opportunity to speak and to share our concerns, the right to express an opinion and to be heard by those who have been chosen to govern is a valuable and precious attribute of democracy and one which we value. It is our duty to speak out when given the opportunity to do so. It is also the duty of elected officials to hear and consider those views. For either of us to fail such duty is to be guilty of failing our civic and moral responsibility.

We are representing ordinary citizens, many of whom have met together, studied and considered the issue of gambling and specifically the proposed introduction of casino gambling in Ontario, most particularly the establishment of a casino in Niagara Falls. We speak on their behalf as well as our own behalf because as responsible citizens we hold opinions which we believe our elected representatives need to hear.

We begin by commending our government leaders at all levels for their urgent concern about the current levels of unemployment and the state of our economy. We share those concerns and many of us have been touched and affected by them.

We have misgivings, however, about some of the proposed solutions to these problems. Specifically, we find ourselves in strong disagreement with those who are advocating the introduction of casino gambling in the belief that such activity would alleviate the unemployment and/or economic ills of our time. We are even more certain such activity would prove harmful and quite possibly disastrous to the quality of life in our community. We are not convinced that our elected officials have attempted to try another way.

Rev Lillian Porter: One of the strongest arguments for the establishment of casinos is that it will create much-needed jobs. But what kind of jobs and for whom? In his book *Temples of Chance*, David Johnson, an investigative reporter, demonstrates that when casinos arrived in Atlantic City, they were supposed to revitalize a community that was experiencing recession, high unemployment and urban decay. More than a decade later Atlantic City still has the highest unemployment rate in the state. Crime remains endemic and the rate of crime has increased. A higher percentage of its residents live in public housing than in any other city in the United States. Casino gambling creates no new wealth and, instead of high-paying jobs, it generates low-paying ones.

We commend the governments who seek to create jobs for the unemployed. It is a worthy goal but we do not believe that worthy goals justify unworthy means.

While there is much speculation and no doubt exaggeration about the expected revenues from casino gambling, it is an uncertain base on which to build our economic future. Gambling is a recessive form of taxation that is unrelated to income or property. It is, in effect, a tax on the vulnerable. Governments that rely on gambling to make up budgets for social services can place these budgets at risk when gambling revenues fluctuate, and they do fluctuate. We note that while much publicity has been given to the report which speaks of potential revenues, little publicity has been given to the fact that \$2.3 billion will be lost by gamblers. We shudder to think what that will mean financially to many families and communities.

The statistics from Atlantic City demonstrate that tourism not related to gambling has decreased significantly. The economic impact on retail has been staggering. In the 10 years following the introduction of casino gambling, only 58 of 178 garment retail shops still remain in business. Costs in policing have quadrupled. Social service costs rose by 300%, and these costs were borne by the taxpayers of the region.

Casino gambling does not bring spinoff trade to the established businesses in the wider community. Things like food, entertainment, shopping, are most likely to occur at the casino or those places immediately adjacent to the casino.

It should not be the role of elected officials to permit, much less promote, activities that prey on human weakness, especially when it is society as a whole that foots the bill. We experience deep apprehension about social costs related to casino gambling, including increased welfare rolls because of people who suffer financial loss, increased policing costs, and increased costs related to counselling those who become addicted or are addicted to gambling. We do not believe that ordinary citizens are willing, nor should they be asked, to bear the increased tax burden which will result from the introduction of casino gambling.

Also, we have identified three likely areas of major concern and major impact.

The rise of compulsive gambling: Maureen Kallick and her associates at the survey research centre at the University of Michigan have shown that where governments sponsor or provide official legitimacy to new gambling operations they significantly stimulate greater citizen participation in gambling.

The research indicates that the proportion of all gamblers who are compulsive is four times higher in those centres where there is casino gambling than in the rest of the United States. It is estimated that an average of 10 to 15 people suffer for every single compulsive gambler.

The province of Manitoba plans to spend \$500,000 a year to treat pathological gamblers who need help with

their addiction. The province of Nova Scotia has also a similar program and the province of New Brunswick has also studied the problem.

Among the social and domestic costs of pathological gambling are loss of work due to absenteeism, arrest for forgery, disrupted family or spousal relationships, and default on debts or other financial responsibilities.

We have heard government spokespersons assuring us that the proposed casinos would be carefully and strictly regulated so as to prevent criminal elements from becoming involved. We find this a hollow assurance. Evidence from Atlantic City and other centres where there is casino gambling demonstrates that although criminal elements aren't involved directly in the running of the casinos themselves, crime will follow the flow of the money.

It is interesting to note that while concerns over criminal activity have been called rubbish by government officials, the police chief of Windsor has testified that overtures from criminal elements have already taken place in Windsor. Virtually every police force concerned has spoken against the introduction of casinos because of the threat of increased criminal activity.

1720

It also appears that the much-heralded and -quoted Coopers and Lybrand report did not address itself to the problems casino gambling would bring. Surely the public deserves to know how much increased criminal activity there may be, how much extra policing will be necessary, how much prostitution will increase. Just in that line alone—many of you may not be aware of this—Niagara Falls is already known to be one of the major centres in North America for prostitution at this time. How much will that increase with casino gambling and more money being carried around on the streets to go and gamble? How much worse will drug and alcohol problems be? We have seen no study, heard no answers, and the hasty dismissal of such problems will do little to solve the problems or to put our people at ease, nor will it do anything to make our neighbourhoods safe.

Among the many reasons we oppose the introduction of casino gambling is the question of morality. While we as a group here are speaking from a Christian point of view, the moral questions we will raise are asked by all faith groups. For us as Christians, we are called by God to live in love with one another, to respect and uphold and upbuild one another. We believe gambling is wrong because it promotes a get-something-for-nothing attitude, which is immoral because it is false. There are no free lunches, as some politicians are fond of reminding us. Elected government officials, whom we have chosen to lead us, should not be in the business of building false hopes and promoting false dreams.

The truth about gambling is that for anyone to win something, many others must be losers. We remind our elected officials that we did not choose them to turn

most of us into losers so that a few promoters could benefit. Governments should follow the lead of many corporations asking moral questions about their actions. Such questions might include the following: Does this action, the bringing in and establishing of casino gambling, as far as possible maximize social benefits and minimize social injury? Is this action consistent with the human rights of those whom it will affect? Will the action lead to a just distribution of benefits and burdens?

Clearly, the answer to all of the above is no. Therefore, we conclude the proposed introduction of casino gambling is immoral, economically unsound, a socially undesirable activity and should not be permitted.

Rev Harvey Murphy: We have one other concluding word about casinos specifically here in Niagara Falls. Niagara Falls is a world-famous city of great beauty. It is a wonderful place to live and one in which we are proud to live. It is a place where we invite family and friends with pride and to which we know they will want to return. Ours is a city for people of all ages. It is a place for children and families, for seniors, for visitors from around the world. It is a place known for its natural beauty, not neon beauty. We want it to stay that way.

Those who know our history know also that it was not always so. What we have today in Niagara is because of the vision of the few and the courage of many who struggled to persevere and to preserve Niagara Falls' beauty from crass commercial exploitation. In other times, shortsighted, profit-hungry promoters tried to shape this region in a different direction. We owe a great deal to those who persevered and held out for Niagara as a place of natural beauty, safety and family life as it is today. We have only to look across the river to see what our Niagara might have been if others before us had let profit for a few be considered the bottom line.

We believe that the true bottom line is not found on the financial page at all, but on the page entitled "quality of life." We are not willing to jeopardize what has been so hard won. We love our city too much. We share and understand the pain of unemployment and a government strapped for cash. We do not believe that casinos are the answer. We urge you, try another way.

Mr Carr: Thank you very much for a very powerful presentation and one done very well. As you know, there were some presenters who came today wanting the government to proceed very quickly: "Don't wait for the Windsor project." To the credit of the government, it hasn't jumped into the other areas even though the mayor here and the mayors in the Sault and Ottawa all came forward. Would your recommendation be to proceed the way it appears now, knowing that you probably won't be able to stop Windsor, but using that as a pilot project so you can slow this process down so

we don't start off with them coming to, for example, Niagara before you've had a chance to look at what's happened in Windsor? I know it isn't the best case, but as a sort of a second-best case, would you like to see the government proceed slowly?

Rev Harvey Murphy: As slowly as possible if it must go ahead. One of the things I personally object to is the fact that when this was first suggested, we contacted governments at various levels and were assured that there'd be lots of opportunity for discussion before decisions were made. It appears to us now that decisions have already been made; this is in fact a fait accompli. The only question is where they're going to be. If they have to be, then I would urge that they be done as slowly as possible with every consideration given to the results and looking at all of the results, not just the profits.

Mr Carr: One of the things you mentioned and that the Coopers and Lybrand report talks about is the number of jobs. I think they're optimistic. You're saying that they are more than offset with all the other things that you so ably laid out.

Rev Harvey Murphy: Exactly.

Mr Carr: And you didn't even touch on one of the other industries which we heard from today, the horse racing industry, which believes we're going to lose almost an equal amount of jobs. We're really not going to have any job creation, but we're going to have all these other problems.

Rev Harvey Murphy: We didn't think they needed our help.

Rev Ms Porter: I think new jobs that will be created if a casino is built or happens here are short-term things initially: construction or whatever. It's interesting to note that not only in Atlantic City but in many centres where they have looked at the long-term range of unemployment, in fact the unemployment level had either increased or stayed the same to pre-casino levels. The casino did not increase employment in the long term in the area.

For me, the most surprising and perhaps the most disturbing impact in connection to Niagara Falls is that—for example, the statistic I gave you about the retail was just one of maybe 30 different things I could have given you out of that report—tourism not directly involved in terms of around the casino itself drops dramatically. It has been proven over and over again. Even if you get people who come here, the 12 million, and not any more, maybe a percentage of them will come and will gamble at the casino, but they will not spend money anywhere else. They will spend money in the casino. They will likely spend money for their food there even if they have to wait for it, so if you build a small restaurant, they're not likely to go out unless it's right next door or in places immediately adjacent.

1730

Mrs Judith MacCarthy: I noticed that when other people were making their presentations, you were very generous to some of them and allowed the time to go over. I would very much appreciate it if you would ask someone sitting around the table to ask us the most logical question, which is, what other ways do you suggest?

Mr Carr: Go ahead and answer that, if you would.

Mrs MacCarthy: Thank you, I would be delighted. The Try Another Way committee submits 11 suggestions as alternatives to casino gambling. They are:

(1) The continued preservation and further enhancement of Niagara Falls, the Niagara River, the parks and wetlands, the Niagara Escarpment. The 60 new trees being planted at the Peace Park in Fort Erie right now will freshen the air and delight the eye.

(2) A historical village depicting Niagara's past, including a Lundy's Lane battle enactment, a Laura Secord walk, a Laura Secord drama, local artisans, actors and musicians, special event days.

(3) A Great Lakes water restoration centre—I don't mean just testing the water; I mean promoting it—based on the premise that Canada's most polluted water flows past our doorstep. The urgent need to purify all waters is our opportunity to become the pure water capital of Canada.

(4) For all cities in Ontario, a clean city campaign. In the summer, hire youth to pick up litter, using colourful litter bins. Promote clean cities by visiting day camps and Bible schools.

(5) Develop the potential of the unemployed by extending Jobs Ontario, by making apprenticeship programs viable to industry, unions, small business, the civil service. York University's public policy and administration program is trying to expand an internship project of this nature. Encourage local initiatives: for example, Make Your Own Lunch, managed and run by the unemployed, or collective kitchens for women to cook together for their families.

(6) Select Niagara Falls as the comparison city. The executive summary to the Ontario casino project, distributed by Margaret Harrington's office, reads thus, on page 17: "Problems with existing data are that the collection process and scope are not currently designed to measure the specific impact of casinos. The provincial government may therefore find it appropriate to collect specific data on an ongoing basis to measure the specific impacts of casinos." Select Niagara Falls as the comparison city.

(7) A convention centre capable of hosting 2,000 people. Evangelical churches are especially interested.

(8) An August 1 community pig roast with pony rides for children, a rock concert for teens, a good old-fashioned dance for adults.

(9) Promote sharing. Advertise it for its value. Restructure the tax system even further so that the more we give the less tax we pay. You realize that if we share with one another, the government won't need to spend as much.

(10) Listen and think. Ask: Would I want to work in a casino? What do I want for my children? How can I help people feel worthy and fulfilled? The political science faculty at York University calls for a democratic administration. This casino hearing is democratic. You are allowing public participation. Will you allow us to assess your legislation and take part in improving or even cutting existing loss?

(11) Lead us by example. The strength of any government evolves from its members' thoughts, words and deeds. The NDP government encourages equality. Good for you. I challenge you to demonstrate equality as you speak courteously to one another, as you consider the needs of each constituent, as you wisely legislate on our behalf. Thank you very much.

Mr Carr: On a point of order, Mr Chair: Would it be possible—it wasn't in the handout—that we get a copy of the 11 points? I know it'll be in Hansard.

Mrs MacCarthy: I faxed it in on Monday but I brought additional copies.

The Chair: Thank you very much. The clerk will get those at the end of this presentation.

Mr Martin: I want to thank you for coming today and recognize the fact that you've brought with you so many who obviously support your position. Many of you have been here since early morning, and that indicates your degree of interest and concern re this subject. Not only that, but Margaret has shared with me her relationship with some of you and the fact that you are indeed sincerely and genuinely concerned and come to this not on some whim of the moment but having thought it out rather well.

I want you to know that there are also many of us in the government who have. We all come to this job from places where we have had lives before, and we represent constituencies and we belong to political organizations that have different values and platforms. So coming to decisions requires us to consider all of those things as we do that, and certainly the morality of it is important to me in particular. I come from an active Christian background. I'm an active Roman Catholic. I ran a soup kitchen in the basement of our church before I got this job, so have brought that thought to this particular exercise and have certainly learned a lot through the three weeks I've been on this committee.

You will have recognized today that about 13 groups came forward and out of those 13, only two were opposed to this particular initiative. Some of them were the leaders of your community. It's difficult to ignore, as you may imagine.

I myself come from, as I said, a Roman Catholic background where bingo was part of our tradition almost, it seemed at one time. In the diocese of Sault Ste Marie, we ran our high schools for a number of years on the proceeds of Pot o' Gold lottery. Many of us sold tickets to that end so that we might educate our children.

I asked the native leadership, when they came forward, the question re the morality of this. They'd obviously decided that this would be good for their community and they said that when you put a hierarchy—they represent some of the most impoverished communities in this province, and giving their people jobs certainly was the first priority for them and that this certainly offered that opportunity.

We went across the river to Sault, Michigan, when we were in Sault Ste Marie and saw a casino over there run by the tribe of Sault Ste Marie, Michigan. They talked to us about the lack of crime now in their community because everybody's working. They talked about what the money generated through that initiative did for them re the further investment they do in their community and the fact that they can't find enough employees to fill the jobs any more. They're coming across the river to Sault, Canada, and within the next six months will hire another 300 people in their operation. In fact, the sense of that operation is that all 15,000 of the people who inhabit that community actually own the reserve and are the beneficiaries of the spinoff.

1740

It makes it a very challenging thing that we do here. We, in our attempt to be sensitive, have introduced a pilot project in Windsor, and we want to do it carefully and cautiously and move slowly. You mentioned some other ways in which we might stimulate the economy. Have you shared these other ways with the business community of Niagara Falls? Do they see them as things that would somehow give further momentum to the economy of this region, which is obviously struggling? I know that all of us must come together around this question, because the people we all represent are going to be affected one way or the other. We're always all ears for new ways, other ways. This was a way that somebody brought forward and we're trying it out. Have you put business plans to them? What will they cost us as a government versus the wealth that might be generated by them, which would then go back into the community of Niagara Falls and contribute to the economy in the ways we need if we're going to be able to pay for the things to really take care of people?

Mrs MacCarthy: Are you asking us to answer this?

Mr Martin: Yes.

Mrs MacCarthy: I have discovered that when one person has an idea, it seems to be that many other people have the same idea at the same time. As I look

in the newspapers and listen to the news, I've discovered that the ideas that were presented here are already being done, that in our city some of these things have happened already and your government is doing some of these things. I'm promoting their value by mentioning them to you again. I don't how it works, but it often happens that many people have the same worthy ideas at the same time, and they're happening all around us. So no, we have not presented these; we've only just gotten together.

Ms Harrington: Mr Chairman, is it all right if we make a very brief response? Maybe the opposition will allow it.

The Chair: I want everyone to know that we've basically concluded our time, but the Chair, being a very generous individual, is going to allow a few more minutes for some interchange. If you'd like to respond, Mr Sheffield, and then Ms Harrington, and I believe the Liberals would like to pose a question or two.

Rev Dan Sheffield: Just continuing the response to Mr Martin on the issue of our local politicians and their great support this morning, I noticed the hesitation, as I'm sure you did, to the question put to the mayor about the possibility of a referendum. Does the mayor have some personal idea as to what the outcome of a referendum might be in the community? When we are dealing with some of these social and moral issues, I think there is responsibility for the elected politicians to consult their constituency in some type of referendum approach. That's my thought there.

Ms Harrington: Thank you very much for coming. You certainly have done a lot of research, probably in a very short time, from what I understand.

A first comment about what we've just been discussing: What I call community economic development is something that is very timely, because this is what our government now is bringing forward. In fact, I'm having a public meeting about it towards the end of September, and it is getting not just the public officials but the grass-roots people in every community to think, how can we economically develop our community? How can we work together?

I really don't think in Niagara Falls that we have worked together well as a community. I think we've been very divergent, and part of the reason I got involved in politics is to try to bring people together. I'd like you to keep that in mind, that you have some good ideas and that they probably will fit in with the process that our government is just starting now for economic development.

With regard to your comments here, you've said there's a "hasty dismissal of such problems," talking about things that go along with casinos. I'd like to say no, that is not true, there has not been any hasty dismissal of the problems. That is in fact why we have a

pilot project. I just want to make sure this is very clear, that we must be able to show that a casino can be an economic stimulator without causing social problems. It would be irresponsible of me to support any additional casino beyond the pilot project if it is shown that the existence of a casino in a community invites problems that we as a whole, as a society, cannot cope with. I believe I speak for the majority of people in Niagara Falls when I say that.

Mr Kwinter: I'd just like to make a couple of comments. You should know, and I want to congratulate you on the work that you've done, that there was an allusion to the fact that government has really examined this carefully before it made its decision. I should tell you that I know from firsthand knowledge that the decision to go ahead with casino gambling was made by the Treasurer, without any consultation by the ministry that has responsibility for implementing it. The first they heard was when the Treasurer made his announcement. Then they were told: "We're doing it. You figure out how it could be done," and that is what's going on now. They're just staggering along, trying to figure out how it's going to happen, but they've already decided it's going to happen, and that is the concern I have.

There's another thing, and I think it's important. The member on the government side used Sault Ste Marie, Michigan, as an example of all of these great benefits that have accrued to that Indian tribe, and they have, but what is happening there has no relation at all as to what is going to happen here, and the reason is this. The Indian tribe pays no taxes, none. We visited them and I said, "Do you pay any taxes?" and they said, "We pay no taxes."

When you take a look at what is proposed for this casino, the government is going to take, by way of its percentage of the win, anywhere from \$110 to \$140 million. There's going to be municipal tax, provincial tax and federal tax, and the figures I've seen indicate that it could be in excess of another \$100 million. The moneys that the Indian band receives at the casino is theirs. They all own it; they don't pay any taxes on it; they just use it as they want to. Of course, it's a wonderful thing for them, but that is not going to happen in Ontario.

The people who are going to make the money are the province and the operators, period. Everyone else is going to have to pay for that, which means everybody is going to have to contribute, but the benefits will be minimal to those few who win money. I think it's important that when a decision is made, all of these things are realized; otherwise, there is smoke and mirrors as to the benefits that are going to accrue.

The decision has been made that the casino is hap-

pening, so I'm not debating that any more because it's a done deal. They've already picked the site in Windsor, they've set a deadline, they've taken proposals from the proponents. That is going to happen. My concern is that it was made without any research whatsoever, and I can tell you that the people who had the responsibility had no input at all. Now they're scrambling to do it, but they had none prior to the decision. My concern is that this is going ahead regardless of the benefits.

They're saying the reason for the pilot project is to find out what the problems are. Someone has already mentioned that casinos are not new. You can go out and canvass every casino in the world and find out what the problems are. You don't have to stick your hand in the fire to find out you're going get burned. All you have to do is look at it and know that it's going to happen to you. That is my concern, and I appreciate your comments.

Mr McClelland: My simple comment, and I think it follows somewhat on Mr Kwinter's statement, is that I asked the question of Coopers and Lybrand, and I refer specifically to your comment on page 4, whether there had been any study done or any look at the human cost element and some of the other attendant social costs and impact. The response was, "That was not within our mandate and not within our terms of reference." I think it's important that you understand that because, as Mr Kwinter has suggested, they were given a job to do. The ship has left harbour; now let's chart a course. That is an analogy or imagery that I've used in the House before.

Rev Ms Porter: Why wasn't that there along with the commissioning of the report? If you're going to look at an issue, then you look at the issue from all sides, not only from the possible positive sides.

Mr McClelland: I don't think you're going to find a great deal of assurance in the response I got from one of the government members. The government member said, and I quote, "There is a strategy in place to develop a plan" to look at how they will deal with the problems. Here we are, as Mr Kwinter said, it's well under way, the ship has left harbour and now we have a strategy to some time develop a plan to begin to deal with it. I think the concerns you raise are valid concerns, and I thank you again for doing so.

The Chair: I'd like to thank the ministerial group for presenting before the committee this afternoon.

I would advise members that the committee next meets at 2 pm Tuesday, and the clerk would like all caucuses to have their amendments to the clerk's office by 10 am on Tuesday, September 7, please.

The committee adjourned at 1750.

Continued from overleaf

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

***Chair / Président:** Johnson, Paul R. (Prince Edward-Lennox-South Hastings/
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Vice-Chair / Vice-Président: Wiseman, Jim (Durham West/-Ouest ND)
Caplan, Elinor (Oriole L)

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***Kwinter, Monte** (Wilson Heights L)

***Lessard, Wayne** (Windsor-Walkerville ND)
Mathysen, Irene (Middlesex ND)
North, Peter (Elgin ND)

***Phillips, Gerry** (Scarborough-Agincourt L)

***Sutherland, Kimble** (Oxford ND)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Duignan, Noel (Halton North/-Nord ND) for Mr Jamison
Harrington, Margaret H. (Niagara Falls ND) for Mr Wiseman
Martin, Tony (Sault Ste Marie ND) for Mrs Mathysen
McClelland, Carman (Brampton North/-Nord L) for Mrs Caplan
Sterling, Norman W. (Carleton PC) for Mr Cousens

Also taking part / Autres participants et participantes:

Kormos, Peter (Welland-Thorold ND)

Clerk / Greffière: Grannum, Tonia

Staff / Personnel: Luski, Lorraine, research officer, Legislative Research Service

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Legislative Assembly of Ontario

Third Intersession, 35th Parliament

Assemblée législative de l'Ontario

Troisième intersession, 35^e législature

Official Report of Debates (Hansard)

Tuesday 7 September 1993

Journal des débats (Hansard)

Mardi 7 septembre 1993

Standing committee on
finance and economic affairs

Comité permanent des finances
et des affaires économiques

Ontario Casino Corporation Act, 1993

Loi de 1993 sur la Société
des casinos de l'Ontario

Chair: Paul R. Johnson
Clerk: Tonia Grannum

Président : Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 7 September 1993

The committee met at 1438 in the Huron Room, Macdonald Block, Toronto.

ONTARIO CASINO CORPORATION ACT, 1993

LOI DE 1993 SUR LA SOCIÉTÉ
DES CASINOS DE L'ONTARIO

Consideration of Bill 8, An Act to provide for the control of casinos through the establishment of the Ontario Casino Corporation and to provide for certain other matters related to casinos / Loi prévoyant la réglementation des casinos par la création de la Société des casinos de l'Ontario et traitant de certaines autres questions relatives aux casinos.

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. We are dealing with Bill 8, An Act to provide for the control of casinos through the establishment of the Ontario Casino Corporation and to provide for certain other matters related to casinos, and today we are also dealing with this bill clause by clause.

I understand that as recently as a few moments ago the Progressive Conservative caucus submitted its amendments to the clerk. I believe the clerk would like to recess for a time.

Mr Ernie L. Eves (Parry Sound): First, Mr Chair, I'd like to apologize (a) for being late, and (b) we have withdrawn several of our proposed amendments. We have two that are being rewritten, the first of which is in section 5, I believe. I understand that you would like some time, and that's certainly acceptable to us, seeing as we're the ones who delayed the proceeding to this point in time.

I just wanted to thank the committee for its indulgence and notify you that we have withdrawn several amendments we were planning to make, we may withdraw others as we go, and we have two that are current-

ly being rewritten that should be here shortly.

The Chair: Thank you very much, Mr Eves. Is there any other committee member who wishes to make any comments about this at this time?

Mr Noel Duignan (Halton North): Is it worth continuing this meeting today, as some of the amendments still haven't been tabled and no side has had a chance to review them? We could convene tomorrow at 10.

The Chair: You want to adjourn till tomorrow?

Mr Duignan: It's 20 to 3 now. Any idea when you would get your amendments?

Mr Eves: Yes. We should have them within the half-hour; by 3 o'clock, I would think. But I certainly have no objection to adjourning until tomorrow. It would give us an opportunity to look at each other's amendments. Perhaps there can be some accommodation made.

Mr Monte Kwinter (Wilson Heights): Mr Chairman, if I may, I have no problem with adjourning. The reason I'm supporting that is that not only do we not have the amendments, but they're still being written; they may be here by 3 or they may not be. To just sit around and wait for them to turn up—and I say this with all due respect. I understand their problem, but maybe the thing to do would be to reconvene tomorrow, as long as we know we're going to get them today and will have a chance to go through them, then we could appear at the proper time.

The Chair: Also, the clerk has requested of the Chair that she have some time to go over the amendments and to insert them in their appropriate places. If there are no major objections to that, then this committee is adjourned until 10 tomorrow morning.

The committee adjourned at 1442.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

***Chair / Président:** Johnson, Paul R. (Prince Edward-Lennox-South Hastings/
Prince Edward-Lennox-Hastings-Sud ND)

Vice-Chair / Vice-Président: Wiseman, Jim (Durham West/-Ouest ND)
Caplan, Elinor (Oriole L)

*Carr, Gary (Oakville South/-Sud PC)

Cousens, W. Donald (Markham PC)

Jamison, Norm (Norfolk ND)

*Kwinter, Monte (Wilson Heights L)

*Lessard, Wayne (Windsor-Walkerville ND)

*Mathysen, Irene (Middlesex ND)

North, Peter (Elgin ND)

*Phillips, Gerry (Scarborough-Agincourt L)

*Sutherland, Kimble (Oxford ND)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Duignan, Noel (Halton North/-Nord ND) for Mr Wiseman

Eves, Ernie L. (Parry Sound PC) for Mr Cousens

Martin, Tony (Sault Ste Marie ND) for Mr Jamison

McClelland, Carman (Brampton North/-Nord L) for Mrs Caplan

Clerk / Greffière: Grannum, Tonia

Staff / Personnel: Wood, Michael, legislative counsel

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The Chair (Mr Paul Johnson): Today we are immediately moving into clause-by-clause on Bill 8. Does anyone at this time have any comments?

Mr Carman McClelland (Brampton North): Just out of courtesy, I'd like to advise you and the clerk that I do have another draft amendment, which would be numbered subsection 13(3). I have it in draft form. I'll provide that for you as soon as possible. I only have it in hand-written form at the present time.

Mr Noel Duignan (Halton North): In regard to our amendment to subsection 19(1.1), we're rewording that amendment. We'll have that to you shortly as well.

Mr Gerry Phillips (Scarborough-Agincourt): I'm just curious. If this is going to be a crown agency, will it be schedule 1, 2, 3 or 4?

Ms Audrey Korey: I'm Audrey Korey, counsel to the casino project. Subject to what Management Board decides, as it's their ultimate decision, we envisage the crown corporation as a schedule 2 agency by reason of its commercial nature.

The Chair: Thank you very much.

I understand that the Liberals have a preamble motion that actually would have to be dealt with first because it would come before section 1 of the bill.

I've been advised by the clerk, and I'll share this information with the committee members, that with regard to a preamble—and this is from Beauchesne's Parliamentary Rules and Forms—it says, "Where the bill, as introduced, does not contain a preamble, it is not competent for the committee to introduce one." That's section 705 of Beauchesne's.

I guess that doesn't mean that at any time, if it's agreed to by the committee, it couldn't be, but I just wanted to mention that.

Mr McClelland: Mr Chairman, we have in front of us a preamble proposed by the official opposition.

After discussion with the parliamentary assistant, he

has agreed to accept part of it. I want to say for the record that what we feel is the substantive portion of it, if you will, the meat of the preamble contained in 3(i) and (ii), is not acceptable to the parliamentary assistant. Notwithstanding that, I suppose a piece of the pie is better than none, but I want to put on the record that we really feel the substance and the teeth of the preamble, the substantive element of it, is being rejected by the government.

Notwithstanding that, I'm prepared, with the indulgence of the committee members and you, Mr Chairman, to read into the record the preamble that we propose. I don't want to presume, but I think the parliamentary assistant will respond accordingly and indicate the portion that is not acceptable and his reasons for that. I believe we have agreement with the third party at least to go that far.

In terms of the preamble, I move that the following preamble be added to the bill:

"The following are the purposes of this act:

"1. to enhance the economic development of certain regions of the province,

"2. to generate revenues for the province and for its cities, regions and municipalities,

"3. to ensure that any measures taken in accordance with these principles are undertaken for the public good and in the best interests of the public, and that

"(i) the best interests of the public shall always prevail over financial, monetary or revenue considerations,

"(ii) any casinos operated pursuant to this act shall pay all costs associated with their operation, including, but not limited to, the full costs of policing, treatment for pathological gamblers and credit counselling."

That is the amendment as we would submit it.

Mr Duignan: What we kind of agreed to yesterday was in fact, and again I would read, "1. to enhance the economic development of certain regions of the province," and again, bearing on what happened afterwards, to say, "to generate revenues for the province," and "3. to ensure any measures taken in accordance with these principles are undertaken for the public good and in the best interests of the public." Full stop. That would be the portion that we would be prepared to accept.

The Chair: Mr Duignan, you will have to read—

Mr Duignan: The whole thing?

The Chair: No, no, Mr Duignan. You'll have to read it as an amendment to the amendment, and read only that part which you wish to remain.

Mr Duignan: Being new to this process, I appreciate the direction.

I move that the following preamble be added to the bill:

"The following are the purposes of this act:

"1. to enhance the economic development of certain regions of the province,

"2. to generate revenues for the province,

"3. to ensure that any measures taken in accordance with these principles are undertaken for the public good and in the best interests of the public."

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Mr McClelland: I just want to reiterate the point I made in my introductory comments, Mr Chairman. It seems to me and to certain of my colleagues in opposition that it's all well and good to make some esoteric statements, but if you don't add any substance to it in terms of the intent in the remedial provisions or remedial concept behind the preamble and the fact that we're looking for some sort of balance and a sense of security in terms of the social implications, that the removal of 3(i) and (ii) render the preamble—I won't say non-effectual, but certainly water it down to a point where one wonders if it has any real meaning.

Having said that, I'll accept the position, regrettably, of the parliamentary assistant and the government. I don't know if I can say anything more other than it seems to me what you're doing is sort of giving with one hand and taking away with the other, and at the end of the day, the preamble is rendered meaningless. But so be it. That's the decision of the government.

Mr Gary Carr (Oakville South): We would agree to the amendment because, as Carman said, it's better than nothing. But I would like to point out that one of the things that we've been saying, and I think both opposition parties have said this throughout the hearings, was that the reason this was done was to generate revenue, and by taking out "for the province and..."—of course, a lot of regions and municipalities think they're going to benefit. By taking that portion out, it reinforces that the government does not care about the revenues to cities, regions and municipalities, only its own revenue, and it's a little ironic that that portion it wants to take out.

Finally, the other portion, 3(i), that they want to take out is something that I think is very simple: "the best interests of the public shall always prevail over financial, monetary or revenue considerations." I think, if I'm not mistaken, I've heard the government say that in the statements, but when it comes to entrenching it in the bill, it doesn't want to do it. I say this in a non-partisan sense: When politicians don't want to put something in, it's because they don't necessarily believe in it, no matter what happens with the rhetoric.

The final portion again: "any casinos operated

pursuant to this act shall pay all costs associated with their operation, including, but not limited to, the full costs of policing...." As you know, we're in a major disagreement on the cost of policing over Windsor. This, I think, would settle the issue. I think we've heard from the parliamentary assistant on numerous occasions—I could almost repeat it verbatim—that they will pay all the costs of policing when they can agree to it. This just entrenches it in the bill and makes what the parliamentary assistant I know has said on numerous occasions throughout the hearing a part of the bill. So when you say it in the hearings and then want to take it out in the preamble, it makes somebody very suspicious that the government doesn't really fully intend, notwithstanding the assurances, to pay the full cost of policing.

So I guess the bottom line is that the preamble will be better than nothing, but I think the full motion would have been something that I would rather have supported, and I would support the full Liberal motion. Failing that, we'll go to our second-best, which would be the government's option.

Mr Duignan: Just on a couple of points, we have stated—Mr Carr's quite correct—that we will pay any policing costs that are necessary for the operation of the casino project in Windsor.

Also, too, the whole question of dealing with problem gamblers etc will be dealt with in another manner, but it's also unfair to simply ask the casino project to pay for the full costs in relation to problem gamblers when this situation has existed for many years, before even the thought of a casino ever came to Ontario. Why have the casino pay for the full cost when indeed the other forms of gambling in this province also should be prepared to pay some of the costs for the prevention, education and treatment of this particular problem?

Mr Carr: One last point, Mr Chairman. I think it's quite right that if the government were to come out with a very clear statement, something that would be binding on it—I think the point's well taken that casinos shouldn't bear the full responsibility for all the gambling, but I would submit to you that this gambling is taking it one step further, where we're going to need a tremendous increase.

I understand what the government's saying, that the casinos shouldn't pay all the costs, but with not having anything entrenched in legislation, the fear is that it will be a nice statement that it's going to deal with the gamblers and the counselling but that it won't get done. I know the parliamentary assistant probably can announce it today, and the government surely will. If at some other point they were prepared to announce a program or funding or something they were going to do, through whatever ministry, then I think the people of this province would feel much better.

We'll take the parliamentary assistant at his word that there will be something coming later, that the govern-

ment will deal with the whole issue of gambling addiction and credit counselling and so on. We in the opposition would just like to see it entrenched because there is no other means of doing that right now, but again we will take the parliamentary assistant at his word, and I'm sure somewhere down the road some ministry will make an announcement on that. We'd just feel a little safer if it was in the legislation.

Mr Duignan: In regard to 3(i), "the best interests of the public," as you know, we will be establishing a committee to monitor the social, economic and law enforcement impacts of the Windsor region, and it will of course make recommendations to the minister and to the corporation as well, so that aspect is being looked at by the establishment of an independent committee.

Mr Carr: Then what is the problem with entrenching? If you're going to be doing it, why wouldn't you like to see it in the legislation? I know you're going to be doing it through the committee and we're going to get to that amendment. If we're doing it anyway, why can't we have that in there, which is a further assurance? Is there any legal reason? If you're going to do it anyway, why can't we put it in? I don't know if you have an answer.

Mr Duignan: I don't particularly have an answer, except that we feel it's better addressed in dealing with a particular section that deals with that issue rather than a general statement of principle.

The Chair: Presently, the amendment, as amended, deletes all the words following "province" in paragraph 2 and all the words following "public" in paragraph 3 of the preamble.

Shall the amended amendment, now called the preamble, carry? Carried.

I've just been clarified by the clerk with regard to procedure. We have two votes to take place here. We have to vote on the amendment to the amendment, and then we have to vote on the amendment as amended.

Shall the amendment to the amendment carry? Agreed.

Shall the amendment, as amended, carry? Agreed.

Mr Monte Kwinter (Wilson Heights): Mr Chairman, I don't think that's right. I think what you have to do is you've got to vote on the amendment, and the amendment obviously did not carry because it was amended, and then you've got a vote on the amendment to the amendment.

Mr Duignan: I think you vote on the amendment to the amendment first and if the amendment to the amendment carries, then I think that alters the original amendment.

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Mr Kwinter: Then I'm saying, why did we have two votes?

The Chair: Procedurally, I believe we have to deal with the amendment to the amendment first, and then the amendment, as it is amended, second, which is what we just did. As I heard, the committee agreed that the amendment to the amendment would carry and then the amendment, as amended, likewise would carry.

Mr Kwinter: If you vote for the amendment to the amendment, then you voted for it. Why are you voting for it a second time?

The Chair: Because, as I understand it, that's part of the procedure. I'm under advisement, as you know, Mr Kwinter, to the clerk. You have to deal with the amendment to the amendment first and agree to that; otherwise, you haven't got an amended amendment to deal with. I hope you don't ask me to repeat that. Are you okay with that, Mr Kwinter?

Mr Kwinter: I've just been advised by counsel that I was correct; your counsel, not my counsel.

The Chair: Mr Michael Wood, legislative counsel, would like to make a comment with regard to the preamble, which we are almost finished with.

Mr Michael Wood: I make this comment simply because it concerns drafting style. A preamble is usually a means whereby certain facts are recited or certain agreements are recited, and it's my opinion that this would be more properly structured as a purpose section of the bill, which would be inserted as 1.1 following the definitions and would read, "The purposes of this act are a, b, c." There would not be any change in the wording.

Mr McClelland: I'd be happy to take counsel's direction on that, to tidy it up from a drafter's point of view. Whatever amendments are necessarily moved, I'll leave it in the good hands of the parliamentary assistant. We'll support it.

The Chair: That advice by legislative counsel is appreciated. It appears that it's agreeable to the members of the committee. Is there anyone who has any objection to that? Seeing none, then what we've called the preamble will be inserted in the bill where it's appropriate, at the beginning of the bill.

Mr Carr: I know we've got a couple of lawyers here who are consulting before we go ahead. The government agrees with that as well?

Mr Duignan: Yes.

Mr Carr: Okay, I just wanted to make sure.

The Chair: We haven't voted to put it in as 1.1 of the bill, but we did have unanimous consent, so that's on the record.

Now we will proceed to section 1 of the bill. Is there any discussion?

Mr Duignan: We have an amendment on subsection 1(2); that's an addition to the section.

I move that section 1 of the bill be amended by

adding the following subsection:

"Minister

"(2) The minister responsible for the administration of this act shall not be the minister responsible for the administration of the Gaming Control Act, 1992."

We've always said all along that it was the intention of our government that the minister responsible for the corporation would indeed be different from the minister responsible for the commission. We wanted to enshrine that in the legislation.

Mr Kwinter: I have a couple of comments. First, I personally don't think section 1 is the appropriate place to be discussing this particular part, because it doesn't follow on what you're talking about. You're talking about the act, you're talking about "casino," "corporation," "game of chance." It would seem to me that, given the specifics of this particular motion or the intent, it probably should be a section by itself.

The other thing is that I have a little difficulty with a negative proposal. I would be a lot happier saying, "The minister responsible for the administration of this act shall be..." and name that person, rather than who it shouldn't be. By saying who it shouldn't be, that leaves it wide open to be anybody who walks in off the street.

It would seem to me that if you're proposing an act to regulate a specific activity and there's a minister who is going to be responsible, that should be determined by the government before the act is passed so that we know who it is, not who it isn't. It just seems to me to be a strange way of writing legislation, saying that the minister shall not be this person but not saying who it should be. There are lots of things you say it can't be, but that's not what we're interested in. We want to know, who is the minister responsible for this act, not who isn't responsible. I wouldn't mind hearing from the parliamentary assistant about that.

Mr Duignan: Again, Mr Kwinter, this addition to this particular part of the act makes it very clear. It was always our intention that it would be a different minister. All this simply does is make it clear that it will be a different minister responsible for the administration of the act from the minister responsible for the administration of the Gaming Control Act. What minister that is hasn't been determined yet. The Lieutenant Governor in Council appoints ministers under the Executive Council Act, and we were simply following that procedure.

Mr Kwinter: It would seem to me that the government has had ample opportunity to decide that it's going ahead with a particular initiative. Bill 8 has not come sort of in a brown envelope: We've known about it for some time, we've had hearings, the government has looked at it. You would think that at this time in the evolution of this particular initiative, they would have determined who is going to be looking after it. It would seem to me the proper place in the bill to say, "This is

the minister responsible." Let me give you an example. Once this bill is passed and someone from another jurisdiction, someone who, for whatever reason, has reason to look at this particular initiative and wants to know who the minister responsible is, if they go to the act, they can't find out who is responsible. All they can find out is who it isn't, but they can't find who it is.

That determination is going to have to be made. It doesn't require rocket scientists to figure out how to do it. The Premier and his policy and priorities committee just have to have it as an agenda item and say, "Who do we think should properly look after this?" and the decision is made. Once that decision is made, it should be put into the act that this is the minister responsible, so that the general public or anybody who has an interest in this will know who the minister is who is responsible for this particular legislation. I just think it's bad form not to have that in there, to have something saying, "This is who it isn't," but not who it is.

Mr Duignan: Maybe I'll refer the question to Mr Jerry Cooper, legal services to the ministry.

Mr Jerry Cooper: If I could assist, the principle we're trying to enshrine, as Mr Duignan said, is to ensure that the responsibilities of the two acts lie with different ministries. It really wouldn't matter if we said right now and specified who the minister responsible for the administration of the Ontario Casino Corporation Act would be, because it is open under the Executive Council Act for the Lieutenant Governor in Council to transfer responsibilities for acts to any minister at any time, and that has been done from time to time. It wouldn't give the certainty that Mr Kwinter mentioned.

Mr Kwinter: I take your point, Mr Cooper. The concern I have is that the wording of this particular amendment, as I say, has a negative or a reverse-onus implication. I would be a lot happier if the wording was amended to spell out that the administration of the Gaming Control Act and the administration of the Ontario Casino Corporation Act shall be the responsibility of two different ministers so that it is spelled out and we know exactly what it's saying.

1040

In my reading of this, I get the feeling that it tells you it's not going to be this guy, but it doesn't say anything else about it, whereas I'd be a little happier if it was on a positive thing saying that these two acts, by nature of this particular piece of legislation, provide that two separate ministries will be responsible for the administration. That would certainly, I think, give a more positive slant to it.

Mr Duignan: I suggest we stand down this amendment till we explore that possibility, Mr Kwinter.

Mr Ernie L. Eves (Parry Sound): On the same point, I share some of Mr Kwinter's concerns. I think it definitely should be a separate section of the bill.

Section 1 is called the definitions section and I think it should have its own section. I would agree that if the government would agree to relook at this section, I think it could be put in a much more positive light than it is currently drafted in.

Mr Duignan: Legislative counsel has a suggestion.

Mr Michael Wood: Yes, it would be possible to reword this. Maybe you would want to take some time first to discuss this before you propose a wording.

Mr Duignan: We are quite willing to stand it down at this point and come back to it at a later point.

Mr Kwinter: Mr Chairman, I didn't hear a comment about my first suggestion, that this be made a separate item of the bill and that I don't think it's appropriate to have it where it is.

Mr Duignan: We have no problem with that either.

Mr Carr: Just for clarification to the members of the committee—and I appreciate the parliamentary assistant will stand this down, so I don't want to belabour the point—maybe you could just give us the couple of ministries you're looking at. Is it the Finance ministry? Is it to do with Culture, Tourism and Recreation; Economic Development and Trade; financial institutions? It would be helpful, I think, for the members to know: Even if you can narrow it down to two or three ministries, what are you looking at right now? Which ministries do you propose to put it under?

Mr Duignan: That's a bit of a loaded question. Not being the Lieutenant Governor in Council, it's hard for me to make that determination at this time.

Mr Carr: What would you recommend to the cabinet when they ask you what you think? In other words, you don't really know?

Mr Duignan: I think the preamble certainly gives some direction. Again, speaking from a very, very personal point of view and not from any other point of view, I would suspect maybe the Ministry of Finance.

The Chair: Before we proceed, I'd like to know at this point in time if the parliamentary assistant could advise the Chair as to where this amendment might be placed in the bill. If it's going to be placed somewhere else in the bill, then we can proceed with section 1. If your plan is to continue to place it in section 1, then we have to stand all of section 1 down at this time.

Mr Duignan: We have no problem making this a different section of the bill. To save time, why don't we stand down section 1 till we get this sorted out?

The Chair: Okay, very good.

Section 2 of the bill: Any discussion on section 2?

Mr Duignan: Very briefly, Mr Chairman, section 2 basically establishes the corporation to conduct and manage casinos and makes it an agent of the province. That's basically the function of section 2 of the bill: establishing the corporation.

The Chair: Shall section 2 of the bill carry? Agreed.
Section 3: Mr Duignan, you had some comments?

Mr Duignan: Normally corporations which are owned 100% by the crown do not have share capital. Instead of shareholders they have members of boards of directors of the corporation. This particular section has standard provisions relating to crown corporations and the remuneration expenses are basically in accordance with the Lieutenant Governor in Council. It will set the remuneration of the members of the board of directors.

Mr Phillips: I think we have an amendment here, if I'm not mistaken.

The Chair: As a matter of fact, you do. I apologize for that. There's a Liberal motion.

Mr Phillips: I move that section 3(1) of the bill be amended by adding the words "including representatives of the council of each city, municipality or region in which a casino is located, as required by the regulations made under this act."

I think we all understand and appreciate that for the individual communities that will be receiving a casino it's going to have a fairly major impact on them. There's always a concern in any municipality that in something this significant they would want to have an opportunity for fairly ongoing and direct input. It isn't as if this is going to be a province-wide thing; this is going to be five or six or seven of these things located in specific communities. I think it's a way to ensure that the local community feels it has ongoing input into it to minimize the potential problems and to ensure that that voice is heard quite directly as opposed to, I think, the ongoing concern that we hear right around the province that Queen's Park thinks it knows best.

Mr Duignan: Again, not being the Lieutenant Governor in Council, I have no idea who will be appointed to the board of directors of the corporation, but I would suspect that most probably it would be a local member appointed from the Windsor area. Also, the concerns raised by Mr Phillips are being addressed in amendments under section 6(5) of the act, which will establish an independent committee to monitor the various aspects of the community and make recommendations both to the corporation and to the minister.

Mr Eves: Is it the intention that there be one representative from each municipal council?

Mr Phillips: Yes.

Mr Eves: I'm prepared to support that amendment. It's not contrary to the intent of section 3, which says that there shall be not fewer than five, as the Lieutenant Governor in Council may from time to time determine, and I don't see any problem with every municipality that happens to have a casino now or in the future having one representative on the corporation.

I do take the parliamentary assistant's point that the government is attempting to address this by way of an

advisory committee, which was asked for by several representatives from Windsor. However, several also directly asked—I believe the mayor and I believe Councillor Duncan, to name two—not only for the city of Windsor but for any other municipalities where there may be a casino in the future, that they be allowed to have a representative on the corporation board. I would be supportive of that amendment.

1050

Mr Carr: I think the parliamentary assistant makes a point that the Lieutenant Governor may appoint somebody from the local municipality. This just says that they have to. As the people who are responsible for legislating this piece of legislation, I think it would be not unreasonable to expect that somebody from the municipality or the region sit on the corporation.

All this is doing is putting into the bill what the government says it intends to do anyway. When you don't want to do it, it lets people suspect that maybe it isn't going to happen. So I can't see why the government wouldn't support this motion.

Mr Kimble Sutherland (Oxford): Could the parliamentary assistant tell me whether every community that has a racetrack has a member on the Ontario Racing Commission?

Mr Duignan: The simple answer to that is no.

Mr McClelland: Accepting in good faith your statement on the intent of the government, the inclusion of an amendment of this nature would implicitly indicate that a municipality would have some input as to who that individual be, as opposed to a decision of cabinet. It wouldn't necessarily indicate that, but I think it might be implicit that the city would be consulted.

I suppose your response would be that the city will be consulted in any event. I think Mr Carr has made the point that it adds legislative assurance to the statements made by yourself on behalf of the government.

The Chair: Mr Duignan, any comment?

Mr Duignan: No comment.

The Chair: Shall the Liberal amendment carry? The amendment is lost.

Mr McClelland: Can I have a recorded vote on that, please, Mr Chairman?

The Chair: Sure.

Mr McClelland: Thanks kindly.

Clerk of the Committee (Ms Tonia Grannum): All those in favour?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips.

Clerk of the Committee: All those opposed?

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

Clerk of the Committee: Tie vote.

The Chair: The amendment's lost.

Mr McClelland: The pressure's on. You earned your \$9,000 a year for it, Mr Chairman.

The Chair: I get nothing for this job, Mr McClelland, let me tell you. It's most appreciated that the committee members understand the difficulty that the Chair has with the circumstances under which he is Chairman of the committee.

Shall section 3 carry? Carried.

Mr McClelland: I don't want to stir up the pigeons, so to speak, Mr Chairman, but the parliamentary assistant is a member of this committee, is he?

The Chair: Yes.

Mr McClelland: He's been substituted on?

The Chair: Yes, he has. He was substituted.

Mr McClelland: Thanks very much.

The Chair: But thank you for inquiring.

Mr McClelland: No, I appreciate that.

Mr Eves: We are going to have Mr Drainville in here to vote.

Mr Sutherland: He can't. He has to officially resign today if the writ is dropped, doesn't he?

The Chair: Order. Any discussion on section 4?

Mr Duignan: We have no amendments to section 4. Section 4 sets out the objects of the corporation. Basically, that is to conduct and manage games of chance. The corporation must direct any casino operator as its agent in all but the everyday running of the casino.

Also, the corporation, under (b), must comply with all the rules as set out in the legislation; in (c), the objective here is to provide for casino operations, which could be through its own employees or providing for an outside operator. The objective of clause (d) is to provide for the operation of other businesses in the casino complex, which are a hotel, restaurant or entertainment facility or even gaming supply services. Basically, what this section does is to establish the objects of the corporation.

Mr Phillips: I'm sure this was asked earlier and my apologies, but just so I understand down the road the role of this corporation, if I'm in the business of supplying wheels and cards and that sort of thing, and I may be supplying some to casinos and some to non-casinos, does my business come under the purview of the corporation?

Mr Duignan: I didn't quite get the question.

Mr Phillips: Under clause 4(d) the corporation can conduct and manage casinos, but also I presume can run businesses that provide wheels and any other game of chance both to casinos and to non-casinos, is that right? Maybe this was already answered in earlier sessions.

Mr Duignan: What you're saying is that the crown corporation, under clause 4(d), could in fact operate the

hotel, entertainment facilities and supply services as well to the casino.

Mr Phillips: I assume that this corporation has a pretty wide mandate. Under "casinos," the definition is "games of chance." Then under clause (d), it could operate quite a wide-ranging set of businesses, I gather.

Mr Duignan: Yes, which it considers reasonably related to the operation of a casino.

Mr Phillips: Okay. So we shouldn't be surprised if the corporation got into businesses that dealt with the casinos and other non-casino businesses.

Mr Duignan: It wouldn't be reasonably related to operating a casino.

Mr Kwinter: On the same point: The reasonableness has to deal with "related to a casino," not that they have to be reasonable in their operations. For example, there's a whole range of services, and some of them illegal, that could be perceived to be reasonably related to a casino operation. Under this section, it provides that the corporation may get into that kind of business.

Mr Duignan: Section 4 states "reasonably related to operating a casino."

Mr Kwinter: Yes, but the point I'm making is that they're not saying they have to be reasonable in their approach; it has to be reasonably related. That means that all kinds of things that could be reasonably related are covered, but it doesn't state that the corporation has to be reasonable in its approach. This is my point.

Mr Phillips: I'm trying to get a feeling of five years from now, when the corporation is up and running, what its scope of business will be, and if I'm on the board of directors of this corporation, what businesses this permits me to get into. I presume that some of the people who came before us who provide gaming devices to casinos and non-casinos, that's the kind of business this corporation could presumably get into.

1100

Mr Duignan: Again, Mr Phillips, the corporation will not be in the business of supplying services to charitable casinos. The act does say "reasonably related" to operation of "a casino, including any business that offers goods or services to persons who play games of chance in a casino." The corporation's not going to get into the business of doing supplies to casinos.

Mr Phillips: Say that again.

Mr Duignan: Casinos are defined in section 1 of the act, "'Casino' means a place which is kept for the purpose of playing games of chance."

Mr Phillips: I understand that.

Mr Duignan: Games of chance are defined later in the bill.

Mr Kwinter: Let me give an example. Under the provisions of clause (d) of this section, it is possible for the corporation to get involved with the manufacturing

of slot machines, and I don't think anybody would think that was not a reasonable service to provide to a casino. The minute it gets involved in the manufacturing of slot machines and a lot of things like that, you then expand what I think is the scope of this particular act and the scope of this particular corporation.

That is where the concern is. Let's put it in the words of the act: "operation of any business that it considers reasonably related to operating a casino." That could be everything from providing food services outside, for providing all of these things; it's open-ended. That is the point: the reasonableness does not pertain to the reasonableness of the corporation, it pertains to what could be considered related to operating a casino.

Is that the intent, that this corporation is open-ended to get involved in all of these other activities, or is it not? Is it to be limited to the regulation of the casino? That is the point we're discussing.

Ms Korey: With regard to Mr Kwinter's concern, I understand the concern as being that the corporation could get into a business that would have it supplying things outside of the casino that we're talking about, the type of casino that we're talking about here in these hearings. I might point out, though, as Mr Duignan has already pointed out, that "casino" means a place which is kept for the purpose of playing a game of chance or games of chance; "game of chance" is further defined to mean "a lottery scheme conducted and managed by the Ontario Casino Corporation on behalf of the government of Ontario under the authority of paragraph 207(1)(a) of the Criminal Code," which allows governments to conduct and manage lottery schemes.

In that case, when you look at 4(d) and tie it into the game of chance that we're talking about as defined and you tie into the word "casino," it seems to me that it would not be possible for the corporation to supply slot machines to some other casinos in the United States, for example. It could, however, supply to itself with respect to any business that it considers reasonably related to operating the type of casino we're talking about as defined in this act.

Mr Kwinter: I may have a different concern than some of my colleagues; I am not as concerned about the problem of having the casino corporation servicing other types of charity casinos or things at that point. My concern is that it would seem that under the structure that is contemplated by the government, the government or the corporation effectively is going to be the regulator and the owner of the facility and a proponent is going to come forward and is going to operate it.

With the provisions of clause 4(d) there is the opportunity for this corporation to get involved in things that have nothing to do with the actual operation of the casino but are related to it. Again, I'm talking about the slot machines. I'm using that as an example, a general example and not a specific example.

Where my concern comes from is that if in their wisdom they decide to get involved in a slot machine manufacturing facility, that opens up a whole new area of concern, because what happens if this facility loses hundreds, thousands or millions of dollars? And somehow or other, under the provisions of this act, no one has to give them any approval because it says that they are entitled under this clause "to provide for the operation of any business that it considers reasonably related to operating a casino."

My concern is that because of its open-endedness, we could have a corporation embarking on some commercial ventures that may be totally putting the citizens of Ontario at risk or may have no basis other than that at the time it seemed like a good idea. That's my concern.

Mr Duignan: I note your concern, Mr Kwinter, but under subsection 6(1) of the act, under direction from the Lieutenant Governor in Council, basically the government can tell the corporation what to do or what not to do. Again, yes, under clause 4(d) it provides for the operation either directly by the corporation or through outside operators of other businesses, so it doesn't necessarily mean by the corporation itself.

Mr Kwinter: It's a matter of interpretation. I assume that you're using as your authority subsection 6(1).

Mr Duignan: Yes.

Mr Kwinter: It would seem to me that is a one-way street. The provision says, "The corporation shall comply with any directions given to it by the Lieutenant Governor in Council," which means that if the Lieutenant Governor in Council decides whatever it is that's going to happen, the corporation shall adhere to that particular directive. It does not say that the corporation must get approval for every act that it enters into without the consent of the Lieutenant Governor in Council, because under clause 4(d), it gives the corporation permission "to provide for the operation of any business that it considers reasonably related to operating a casino." I don't see subsection 6(1) making that particular provision subject to the approval of the Lieutenant Governor in Council.

Mr Duignan: Again, under subsection 6(1), if the cabinet feels that it's not reasonably related to the operation of the casino, then the government can tell the corporation not to do it.

Mr Kwinter: Again you're going on the assumption that the corporation is going to have to get approval for everything that it does under its mandate. The purpose of this act is that it's giving some latitude on what it can do, and it says it can "provide for the operation of any business that it considers reasonably related to operating a casino." It doesn't say that it has to go back to the Lieutenant Governor in Council and say: "We think this is reasonable. Do you agree?" They're going to do it, and the only thing that's going to happen is

that if it's brought to the attention afterwards, the Lieutenant Governor in Council may want to remedy what they consider to be something that the corporation has done under its mandate, and that is my concern.

Mr Duignan: Using your example, that the corporation could decide to go in and build slot machines, I think that would be considered not reasonably related and the Lieutenant Governor in Council, through the government, can say no, plus—

Ms Korey: Can I add to that?

Mr Duignan: Yes.

Ms Korey: As Mr Kwinter knows, there's always a memorandum of understanding between the ministry and any of its agencies. This section provides for flexibility in the corporation, which is necessary in the business world, as every businessman knows. You cannot legislate reasonableness either, because people are going to be unreasonable. If the board of directors is not going to act in the best interests of the corporation, contrary to law, you can't legislate that it should. You can only use whatever legal means are possible to reprimand them for doing so if they do so. In the memorandum of understanding certain things will be set out, the parameters of what the agency should be doing, while still allowing a proper business flexibility, as you would in any business that you hope will thrive.

1110

Mr Kwinter: I don't want to belabour the point, but I think it's absolutely critical. The legislative counsel has described reasonableness, and I think we're talking about two different reasonablenesses, if I could use that term. The provision under clause 4(d) doesn't say that the corporation shall be reasonable in its approach to business; it is saying that it has the ability to conduct business and enter into things that can be reasonably attributed to the casino, which is totally different. This is the point I'm making. There is no onus on the corporation to be reasonable. All they have to do is to decide that whatever venture they're getting into is reasonably associated with casinos, and if you don't think slot machines can be reasonably associated with casinos, what are we talking about? That's what it's all about. How can you possibly say it isn't reasonable for the corporation to get involved in slot machines? What could be more closely allied to a casino than a slot machine?

Mr Duignan: It's not quite what I said. I said getting into the business of manufacturing slot machines.

Mr Kwinter: Well, I'm sorry. It says "to provide for the operation of any business that it considers reasonably related to operating a casino." That's what the provision says. I'm sorry, but that is the interpretation I take from it, and I don't agree with the interpretation that has been given.

Mr Phillips: One of our concerns is that we are as a province now embarked full steam ahead on gambling, and we have some concerns about where that's going to lead in terms of liability for the public.

I don't think there's any doubt that if you were on the board of directors of this corporation and you read (d) you'd say: "Let's get into some related businesses. We're going to buy all these slot machines or all these gambling tables or all these various devices. Let's get into the business of manufacturing them ourselves." I would interpret that as almost encouraging the corporation to get into it, and if that's what we intend, then we leave (d) in. If what we intend is for the corporation to essentially manage the casino, we take (d) out and we minimize the risk that, 5 or 10 years from now, this corporation has several white elephants on its hands, things that looked like a good venture "for the operation of any business that it considers reasonably related to operating a casino." That's why we've got concerns about (d) leading the corporation into a series of related businesses that I don't think were intended but that are inevitable if we leave (d) in.

Mr Eves: I concur wholeheartedly with both Mr Phillips and Mr Kwinter. It depends on what our intent is. I don't think there's any doubt that the way 4(d) is worded, if the corporation so chose, it could interpret that section to allow it to get into almost any business that was even, as it says here, "reasonably related" to a casino or "offering goods or services to persons who play games of chance in a casino." The possibilities there are almost endless.

Mr Carr: A question to the parliamentary assistant: This would apply to restaurants; I know it's come up, but I forget the answer. Is it the intention of the corporation to run the restaurant or contract it out? What's happening with the restaurant?

Mr Duignan: To provide for its operation.

Mr Carr: So they can contract it out or can open it. Essentially, this clause allows them to do things like that, to open a bar and a restaurant—

Mr Duignan: A dry cleaning business, sell T-shirts etc, a shoe-shine shop.

The Chair: Any further discussion on section 4?

Mr Phillips: I'm not sure how we'd deal with this, Mr Chair, but I suggest split the vote and provide us an opportunity to vote separately on (d). I guess we vote against (d), we delete (d).

The Chair: Let me do it this way, and I hope this is appropriate. From what I've heard through the discussion, can we deal with clauses 4(a), (b) and (c) of the bill first?

Mr Kwinter: Mr Chairman, what I might suggest is that I could move an amendment suggesting that section 4 be approved as presented, with the removal of clause (d); then we can vote on that and that would solve the

problem either for or against it. I move that clause (d) be removed from section 4.

The Chair: All those in favour of the amendment? All those opposed? The amendment is defeated.

Shall section 4 of the bill carry? Carried.

Fortunately, we took about 15 or 20 minutes on section 4 of the bill, which was about the amount of time the clerk needed to organize some documents she wants to distribute. We will recess for five minutes.

The committee recessed from 1116 to 1123.

The Chair: Order. You have received a new package of amendments from the clerk. They are to be inserted among your other amendments as we proceed through the bill; we'll certainly remind you of them when we get there.

We are now dealing with section 5 of the bill. Mr Duignan, you would like to comment on section 5, I'm sure. This is not the amendment; we're going to deal with just section 5 of the bill first.

Mr Duignan: Section 5 of the bill contains standard provisions found in the Business Corporations Act of Ontario, which governs for-profit Ontario businesses and the powers of the corporation.

The Chair: Any discussion on section 5? I might add, just to clarify for the committee members, that we do have some amendments, a government motion and a PC motion that are labelled section 5.1 and section 5.2. When we get to that point in the bill we'll deal with them, but right now we're just dealing with section 5.

Shall section 5 carry? Carried.

Mr Duignan has a government motion.

Mr Duignan: It deals with a new section, 5.1.

I move that the bill be amended by adding the following section:

"Location of casinos

"5.1(1) The corporation shall not provide for the operation of a casino in a municipality unless the council of the municipality has passed a resolution approving the operation of the casino.

"Public meeting

"(2) The council of a municipality shall not vote on a resolution to approve the operation of a casino until,

"(a) it held at least one meeting that was open to the public and at which it presented the proposed resolution; and

"(b) at least seven days have passed since all meetings were held.

"Notice

"(3) The council of the municipality shall give at least fifteen days notice of a meeting,

"(a) in the prescribed manner in a newspaper having general circulation in the municipality; and

“(b) in any other manner that is prescribed.

“Representations

“(4) All persons who attend the meeting shall be afforded an opportunity to make representations in respect of the proposed resolution.

“Exception

“(5) Despite anything in this section, the corporation may provide for the operation of a casino in the casino area within the meaning of section 19 or in the interim casino area within the meaning of section 19.1.”

The purpose of this new section is to legislate the government's commitment not to put a casino anywhere where the community does not fully support one. This section provides for a municipal resolution before a casino can be located in a municipality. Prior to voting on such a resolution, there must be a public meeting at which anyone present can and should be heard. Time limits are set by the legislation between notice of that meeting and the meeting itself and between the meeting and the council vote.

The Windsor interim casino and the Windsor casino are specifically exempted from the requirements of this section. Although there is a Windsor council resolution and there was extensive community consultation, the exact mechanism described in the legislation was not followed, because basically at that point it was not prescribed as it is in the legislation right now under the proposed amendment.

Mr McClelland: I don't want to appear to be too, too controversial with my friend the parliamentary assistant, but again I have to say simply the amendment as moved by government is nothing more than fluff. If you're talking about people having a sense of participatory democracy, I'd say to the parliamentary assistant and the government, you've got to give them some handles to really make it count. For a government whose leader has touted the reform of participatory democracy and most recently in Charlottetown spoke with great enthusiasm about people having direct input, I find this to actually belie that rhetoric, quite frankly.

In short, I don't think it means anything in the final analysis. Effectively you're saying that in a two-week time frame, local municipalities will have a special council meeting. There would be a lot of people, quite frankly, who would tell you, whether it be a government at any level, municipal council, provincial or federal—I use by way of example this process. People would say they don't really have a whole lot of confidence in the committee process in terms of the decisions that are ultimately made as being resultant of the input by people on the street, so to speak.

In short, I'm not going to be supporting this. I will hold my fire, I guess, for alternate amendment 1 of section 5.2 that the Conservative Party has put forward, which I think really gives credibility and some sub-

stance to the rhetoric of the parliamentary assistant with respect to people having a say and a clear and definitive indication of the wishes of the population of any community.

1130

Mr Eves: I know what the government's trying to do. They're trying to get the municipality involved. But I would prefer to see it be done by way of municipal referendum, and I have an amendment—I think the number is 5.2, which may be subject to change later on—which we'll come upon in a few minutes.

As Mr McClelland said, this is almost asking the municipality to go through the motions. Having one meeting where a municipality gets 15 days' notice and the public is invited to attend, I mean, big deal. I would think that the public is invited to attend any municipal council meeting of any municipality that I've been associated with, and to go through this charade of saying you're having public consultation with one meeting, I think that's what it is: It is a bit of a charade. If you really wanted to have meaningful participation by a municipality, you should allow the municipality to have a plebiscite or a referendum on the issue.

Mr Sutherland: I support the amendment. I think that's the way our system works. Everyone elects representatives to make decisions on their behalf. Remember, our system of representation, both at a local level and quite frankly at a provincial level, is a trusteeship system rather than a delegate system. You elect people to make the decisions on your behalf. If you're not happy with those decisions, you have the opportunity to make your judgement come election time. Elected people are elected to make those types of decisions.

I'm really surprised that the third party is talking about forcing a referendum on municipalities. Their leader was just in my riding, met with local municipalities and talked to the press about, “Oh, there's too many regulations hindering municipalities from doing things.” And what do they want to do? They want to put what they feel is another hindrance in it.

I think this is a good amendment.

Mr Carr: Put a question on the ballot. You tick a box. Yes or no, I want casinos. That's regulation?

Mr Sutherland: What about the cost?

Mr Carr: There's no cost to putting that. You're having a municipal election anyway.

Mr Duignan: I agree with what Mr Sutherland has to say, but first of all, we're not talking about one meeting. What this amendment is talking about is that you have to hold at least one. It doesn't say it's just one—it's at least one. It can be two, three or four. And don't forget, the municipality always has the option of putting a question on the ballot. They have the right to do that right now.

You know what? This will be great. What input, for

example, did the public have on the SkyDome or Minaki Lodge or some of the other situations the province got itself into in past years? The public didn't have any input in those. What we are doing here is giving public input into a very important question, and if the municipality so chooses, it has the option of putting it on a ballot itself.

Mr Carr: Just to the point Mr Sutherland made, I know governments do change their opinion. They run on opposing Sunday shopping and then introduce it; they run on public auto insurance and then don't introduce; against casinos and then introduce it. So I understand that some governments, which will remain nameless, change their mind.

What we're calling for, very simply, is that you're going to have a municipal election next year, I guess it is, anyway. It's one question on the ballot. As far as more regulations, all you do is check, "Yes, I'm in favour of casinos" or "No." So it isn't more regulations.

The point I wanted to make was the exception of the Windsor casino. I know the Windsor council has passed a resolution, but if you're going to do this, why exclude them? I think it was done early in the mandate before they knew exactly what they were getting. Whether that will change council, I suspect it probably won't, but it will allow for an opportunity for people to see the interim casino as it has now been laid out a lot more clearly. If you're saying it's okay for other municipalities, and if they're assured that Windsor is going to pass it and it has overwhelming support, then why couldn't you not exclude the interim casino and make Windsor comply with the section, which would simply be calling a meeting and then having another resolution where the public will know now this is the interim casino? More of the details are out.

So my question to the parliamentary assistant is, if this is acceptable to the people of Windsor and it's not a great deal, as the other members have argued, in terms of setting up to do, why wouldn't you allow the people of Windsor to have their say on the interim casino in the meetings as you propose in section 5.1 for other communities? Is it a time constraint? Windsor can certainly do that before the time it's open. The question I'm asking is, why is the interim casino excluded?

Mr Duignan: There are a number of reasons. First there's the timing, but also the fact that the Windsor city council has already passed a resolution and extensive community consultation has gone on.

Mr Carr: When was that? Do you know the date? That was way back. Maybe Wayne would know.

Mr Duignan: There was more than one. I understand there were several. That's about a year ago.

Mr Carr: Before all the details were out.

Mr Duignan: There was also extensive community consultation in the Windsor area as well, and it's

continuing, it's ongoing. You spent a week in Windsor. You heard from numerous delegations that came before this committee, and there were basically just two negative briefs against the Windsor casino.

Mr Carr: That's my concern. I think the mayor said he has overwhelming support for the resolution. If that's the case, you're not going to lose the vote. Why won't you allow, now that the details are out—you said it was last October before any of the details came out. We were getting details as the committee went along on what was happening. The people didn't understand exactly what the interim casino was going to be like. Now they do. They have as many facts as they're going to have. The mayor thinks it would pass council.

Setting up one of the meetings as is proposed in section 5.1 is not that big a deal timewise. They could do that within a short period of time, have the input, pass the resolution and then it would be very clear.

My concern is, you say to other municipalities, "You're allowed to do this," but in Windsor's case you say, "We had a resolution a year ago before all the facts were out." If the people of Windsor are sure that it's going to pass, then why have this exception? I don't think there's much doubt it probably would pass, so why aren't the people of Windsor able to voice their concern now that all the facts are out?

Mr Duignan: Again, Mr Carr, I think the people of Windsor have voiced their concerns and continue to voice their concerns over the last 12 or 18 months through their elected representatives in the city on city council as well as to their elected representatives at the provincial level and the fact that the corporation has had many extensive consultations with the people in Windsor, plus the fact of timing. We're well into this process right now, Mr Carr.

The Chair: I regret that I have to interject at this time and inform the committee that we should stand down this government motion section 5.1 at least until we have dealt with section 19.1, because it's presumptuous of us to assume that 19.1 will be a part of the bill. So we will defer government motion section 5.1 until we have passed section 19.1 of the bill.

Therefore, we should proceed now to PC motion section 5.1. I understand there's an alternate to that section should it not be successful, but I'll start with Mr Eves and ask him to read his motion.

Mr Eves: I move that the bill be amended by adding the following section:

"Location of casinos

"5.1 The corporation shall not provide for the operation of a casino in any location other than in the casino area within the meaning of section 19."

The purpose of this amendment simply is to prevent any government in the future in the province of Ontario from adding additional casino sites without coming back

to the Legislature. If the government knows where it wants to extend casino sites now, it would have the choice or option of changing the definition of "casino area" under section 19 of the act. If it doesn't, the simple purpose of this amendment is that before any future casino can be introduced into the province, the provincial government's going to have to come back to the Legislature to have that approved.

1140

Mr Carr: The point that we heard from the parliamentary assistant—I think I can repeat it verbatim—is saying that the government has no plans to operate another casino at this time. Notwithstanding that, and I know the parliamentary assistant believes that, but what often happens is cabinets have a way of, for want of a better term, pulling the rug out from under parliamentary assistants and changing their minds on them.

Mr Eves: By that time Noel will be in cabinet.

Mr Carr: By that time he'll be in cabinet fighting as the minister. All this says is if you really mean that and if the interim casino is truly just a test, as you've continually said, again I say it was almost—I don't want to use the word "nauseating" to hear it, saying it was a test when a lot of people believe it is not. All this motion is saying is that we don't trust you; put your words in writing.

Notwithstanding the fact that we like you, we still would like to see it in there, and if you really believe this is just an interim casino and that you are going to test it and look at all the problems out there that have been enunciated, then it would have to come back to the Legislature so the elected people of this province would be able to make their decision. All we're saying is what you said for three weeks in the hearings: Put it in writing and come back to the Legislature at the end of the day for its approval. Obviously, I'll be supporting it.

Mr Duignan: Obviously, we won't be supporting this amendment, Mr Carr. We trust ourselves and I think we have faith in ourselves. I'll state it again—

Mr Carr: We got burned on Sunday shopping and public auto insurance. We're sort of a little leery.

Mr Duignan: —the Windsor casino is an interim casino and the government has no plans to expand beyond Windsor at this time. I'm going to bring a recording and keep on playing it.

Mr Sutherland: Point of order, Mr Chair: Given that this motion also makes reference to the meaning of section 19—

The Chair: No, Mr Sutherland, if I could just interject right away and say that section 19 is in the bill. Section 19.1 is an amendment that we're going to have to deal with.

Mr Sutherland: Okay, sorry. Thank you.

Mr Kwinter: I was going to talk to the same concern. I have no problem with the amendment as

proposed by the third party. I have some problem with it referring to section 19 at this particular point in the bill. Everything prior to section 19 is of a general nature that will apply to all casinos, whenever they're established. Section 19 deals specifically with Windsor.

It would seem to me that the intent of the amendment is to provide that once an establishment has been determined and the geographic boundary of that establishment has been determined, it cannot be expanded without the approval of the Legislature or without amending the bill. It would seem to me that to have it at section 5.1 and referring to section 19 deals only with Windsor, and I don't think that was the intent.

Mr Eves: No, you're quite correct. I would certainly entertain any amendment that you or anybody might want to make to effect that purpose. The purpose basically is that there is no other section in the bill, as it exists now, that provides for location of a casino anywhere in the province of Ontario. Section 19 was the only section I could find in the bill that talked about where a casino is going to be situate, because obviously that's the only one the government's decided on to date.

The purpose of the amendment or the section is to make sure that no further casino locations are adopted without legislative approval. Perhaps leg counsel would have some advice for us on that.

Mr Michael Wood: Your interpretation of the motion is quite correct. As it now stands, no further approval is required in order for the casino corporation to operate a casino in the casino area. If it is your intent to remove that capacity, you could amend the motion, which would place a restriction on the corporation providing for the operation of the casino in any location and require legislative approval to set out the actual locations.

Mr Eves: Does the amendment, the way it's drafted, achieve the ultimate purpose that we're trying to achieve, though, if somewhat perhaps not as clean as we would like it?

Mr Michael Wood: The amendment, as it is drafted, does allow for the operation of a casino in the casino area and only in the casino area.

Mr Eves: So in effect it would have the effect I'm looking for: There couldn't be a casino anywhere in the province, other than as defined in section 19 of the bill, which is Windsor, obviously.

Mr Michael Wood: That is correct.

Mr Eves: I'll leave it the way it is then. It may not be as clean as I would like, but it does effect the purpose that I want.

Mr Michael Wood: The reason the motion was drafted to insert the provision in 5.1 is that it deals with the powers of the corporation, whereas section 19 sets out the powers of the city of Windsor.

Mr Kwinter: Mr Chairman, just so that I can clarify

it in my mind, and if Mr Eves would be of some help to me: It's my interpretation of this added amendment—it's an addition to 5.1—that notwithstanding that we are only dealing with one casino in Windsor, and that is provided for under section 19, the intent of this additional amendment is to restrict the location of casinos to that area originally designated as the area for a casino. If there is to be any expansion of that area, in Windsor or any other location where a casino will eventually be established, once that area has been determined, that will be the only place that a casino can go. If it's to be expanded outside of that area, then there would be a provision that it must come back to the Legislature for approval. Is that not your intent?

Mr Eves: Yes.

The Chair: Is it clear then, the intent of this motion? It is to the Chair, I think.

Shall the motion moved by Mr Eves on section 5.1 carry? The motion is lost.

Mr Eves: Could we have a recorded vote?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips.

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

Clerk of the Committee: Tie vote.

The Chair: The motion is lost.

We return to the alternate motion, which is a PC motion, on section 5.1.

Mr Eves: Mr Chair, before I read the motion, I'm going to change the wording of clause (d), as I get there, to read "the assembly has approved the report" as opposed to "the standing committee has approved the report."

I move that the bill be amended by adding the following section:

"Location of casinos

"5.1 The corporation shall not provide for the operation of a casino in any location other than in the casino area within the meaning of section 19 until,

"(a) the corporation has completed a report on the economic and social consequences of the operation of the casino in the casino area within the meaning of that section during its first two years of operation;

"(b) the minister responsible for the administration of this act has laid the report before the assembly within six months following the end of the first two years of the casino's operation if the assembly is in session, or if not, at the beginning of the next session;

"(c) the assembly has referred the report to a standing committee of the assembly;

"(d) the assembly has approved the report."

The purpose of this amendment is somewhat similar to the one that was just defeated, although not as abrupt.

This really provides that there won't be any further casinos until the initial one has been in operation for two years and that within six months a report has to be filed and tabled in the Legislature by the minister responsible for the act, and the assembly has the opportunity to approve or not approve that report. In other words, if the first casino is a success and there are really none of the economic and social problems that some have predicted may happen, I suppose the assembly won't have any problem approving such a report. If, on the other hand, there are some problems, I presume the assembly would not so approve.

Mr Carr: These are similar to the comments I made last time. It's just that the government has said there are no plans for another casino. If that's really the case and they aren't proceeding down the road, then I would think there would be no objection to this. If in fact there are plans to open other casinos because of pressure from people in the Sault and Howard Moscoe in Toronto and other things, then I would hope that the government would come clean and say, "Yes, we are going to proceed before the interim casino is looked at."

All this does is make you live up to the words that we've heard for the last three weeks, that there are no other plans. If the government truly believes that, I don't think there would be any reason it wouldn't support this. If in fact this is a test case where we're going to look at it, then I think all members of the assembly should have a chance to vote on it before we proceed with any casinos past Windsor. It will allow them the opportunity to see what has happened in Windsor before the decision is made.

1150

Mr Phillips: I have sympathy for the amendment. My concern is frankly with what I think would be two and a half years from the opening of the Windsor casino to a decision on any expansion, and I'm not sure that I'd want to be tied to that length of time for the evaluation. There may be other ways of evaluating the situation using other North American examples. While I have some sympathy for the intent of it, I have a problem with the length of time between the opening of the Windsor one and any possible expansion.

Mr Duignan: Then we will have to change our slogan, Carman, from "Five in 1995" to "Five in 2005."

Mr McClelland: I don't know how much you're committed to printing at this point in time, Mr Duignan, but I wouldn't want you to have to scrap your lawn signs for 1995.

Mr Duignan: We can't support this motion. Again, it's too restrictive. The fact is, we have an independent committee being set up under section 6 that will monitor the social, economic and law enforcement impacts of the casino in the Windsor area. I think that's sufficient and covers this particular section 5.1 and the proposed amendment.

Mr Eves: I have looked at the proposed amendment to section 6. The only comment I would make on that is, it is an advisory committee only; it's not empowered to do anything. Again, in a vein similar to the last amendment, we would seek approval of the Legislative Assembly as opposed to just advice from an advisory committee which really has no ability to make decisions that are binding, just has the ability to recommend to the government.

Mr Sutherland: I'd go back to the lottery corporation. My sense is that the lottery corporation act was set up so the lottery corporation could operate. Each time the corporation decided to establish a new lottery, it did not have to come back for legislative approval.

Mr Eves: It probably should have. We don't want to repeat that mistake. I wouldn't want to see you repeat it, Kimble.

Mr Sutherland: We're not in the business of repeating Tory mistakes.

Mr Carr: You make enough of your own.

Mr Eves: I don't think you need any help there.

Mr McClelland: You're doing a fine job all by yourselves.

Mr Kwinter: The member seems to be using the lottery corporation as his example. There's another—

Mr Duignan: You could've used the SkyDome.

Mr Kwinter: No. There's another corporation that has a totally different history, that is, the liquor licence board and the liquor control board. The casino is more in line with that. It is a decision that, rightly or wrongly, people have a very strong opinion about. To this day, every time a liquor location is opened, there's a public notice and people have a chance to object to it. Certainly there are areas in this province that still, by referendum, keep liquor out.

I think it's important to understand that this is not quite the same. As I say, I'm not trying to argue the merits or not; it's just that casinos have taken on an aura of being something that people feel, not only in Ontario but in lots of other jurisdictions, they require a referendum on. I'm just trying to be helpful in suggesting that to use the lotteries as your example, it may be more akin to liquor legislation.

The Chair: Shall the PC motion to section 5.1 carry? The motion is lost.

Mr Eves: Can we have a recorded vote?

Ayes

Carr, Eves.

Nays

Duignan, Kwinter, Lessard, Martin, Mathysen, McClelland, Phillips, Sutherland.

The Chair: The motion is defeated. That brings us to the PC motion on section 5.2. Mr Eves.

Mr Eves: I have this motion and an alternative motion should this one not pass, for some amazing reason. Basically, this section of the bill would provide for a province-wide referendum. I move that the bill be amended by adding the following section:

"Referendum required

"5.2(1) The corporation shall not provide for the operation of a casino in any location until the operation of casinos has been approved in a province-wide referendum.

"Chief election officer

"(2) The chief election officer shall be the chief election officer for the referendum.

"Question

"(3) The question put on the referendum ballot shall be in English and French as follows: May gambling casinos be operated under the OCC Act?" I suppose if you wanted me to I could spell out the act in its full name.

"Conduct of referendum

"(4) The chief election officer shall conduct the referendum in the manner set out in the regulations made under this act."

The purpose of this motion obviously is to require a province-wide referendum to be held prior to the establishment of any casinos in the province of Ontario.

The Chair: Thank you, Mr Eves. I just want to remind the committee members that the clock on the wall is a few minutes slow, and it's almost noon. If we are to start debate on this, the Chair may forget some of the debate that has taken place.

Maybe at this point in time we should recess until 2, and then we can continue with discussion and debate on section 5.2. All right. We're recessed until 2 pm this afternoon.

The committee recessed from 1159 to 1427.

The Chair: The standing committee will come to order. Just prior to the noon-hour, we were dealing with PC motion section 5.2, which had been moved by Mr Eves with an explanation, and I believe Mr Kwinter was first up to respond to that motion.

Mr Kwinter: Do we have another meeting going on over there? None of those people—the parliamentary assistant—

The Chair: Order. The committee has come to order.

Mr Duignan: What are we waiting for, Mr Chair?

The Chair: We were waiting for you, Mr Duignan.

Mr Kwinter: Just so I understand where we are, we are addressing the PC amendment, section 5.2, is that correct?

The Chair: That's right, the first one. There is an alternate.

Mr Kwinter: If I could recommend a friendly amendment to the proposer, the question says, "May gambling casinos be operated under the OCC Act?" That is an information statement, and the answer is obviously yes, that's what the act provides for, that there can be gambling. I don't think that was the intent. I think the intent was an expression of opinion, which would be, "Are you in favour of gambling casinos operating under the OCC Act?" I would suggest that, regardless of the outcome of this amendment, at least the question be stated in that way. I don't know whether the proposer has any objection to that.

Mr Eves: No, I have no problem with that.

Mr Kwinter: Do you know what I'm saying? It says "may." That's a question of yes, it may, because that's what the act provides for.

The Chair: Mr Kwinter, are you proposing an amendment to this motion?

Mr Kwinter: The reason I'm hesitating is that I haven't had a chance, really, depending on which one it is—I have no problem with it, but I just want to make sure that, regardless of whether it is approved or not approved, the right question is being asked. I think everybody is agreed, because this is not a question. It's asking a question, "Is it possible for this to happen," not asking people, "Do you want it to happen?" I'm suggesting that it should say, "Are you in favour of gambling casinos being operated under the Ontario Casino Corporation Act?"

The Chair: I understand that, but in order to change this motion, there needs to be—

Mr Eves: I would be happy to change the wording if it would assist, Mr Chair. Under subsection (3), "The question put on the referendum ballot shall be in English and French as follows: Are you in favour of gambling casinos being operated under the OCC Act?"

The Chair: Before we continue, is it understood that Mr Eves withdrew his motion and resubmitted it with the changes as indicated?

Mr Eves: That's fine.

Mr McClelland: I wanted to indicate to my third-party friends particularly that I will not be supporting this amendment, simply because I favour very strongly their alternate amendment to section 5.2. Just for the record, Mr Eves and Mr Carr, I'm not so much taking issue with this particular amendment; rather, we'll be speaking in favour of your alternate amendment. I feel, for a variety of reasons, that it's more acceptable and certainly more appealing to our caucus.

Mr Carr: The reason it's province-wide is that the feeling is that the effects, whether good or bad, are going to be province-wide, so it was our intention to have a province-wide referendum; failing that, local ones, as you'll see in the next amendment. I believe that something as important as this could be put on the

ballot and have a province-wide decision.

Mr Sutherland: Mr Carr just said the effects are going to be province-wide, whether it's in Windsor or wherever. Could he explain to the committee how he thinks the casino in Windsor is going to impact the people, say, in Ottawa, or in Picton, for that matter?

Mr Carr: Because you're going to take the revenue; that's why you're doing this, and that's going to impact. The reason you're doing this is revenue-generated. Since the province is going to get all the money coming out of this, presumably we all benefit when it goes into general revenue. That's what I meant. And I was thinking not just in terms of the benefits with regard to the revenue, but also the side-effects. As you know, if we have a compulsive gambler in Windsor, as an example, he may be living in Toronto and going down there to gamble.

The effects, whether they be good, bad or indifferent, will be province-wide. I think it's an issue that's important enough that it could be put on a province-wide referendum, because when you put the casino in Windsor, you're still going to have people, as the intention is, who travel from Toronto and London and all over the province to go to the casino. I think that's the intent, that it isn't just there for the people of Windsor or the Americans. That's why I think something of this nature should be province-wide.

Mr Duignan: We can't support this amendment. Without getting into the debate of whether this is suitable under parliamentary democracy or not, the question we then should be asking is, are people in favour of gambling on horse racing, of gambling in the lottos or gambling on bingo? The compulsory gambling association which appeared in front of this committee a week or so ago stated that there are somewhere between 70,000 and 100,000 compulsive gamblers already in the province, and we don't have a casino. Therefore, are we to determine that this referendum should be broadened to also include other forms of gambling in this province? Why are we singling out casinos?

Mr Eves: Why? Because we're talking about Bill 8, which is the casino bill. The other ones, rightly or wrongly, are already accomplished facts.

We also feel fairly strongly that the only public statements on record about casino gambling prior to the last election, by both the Premier of the province and by the Deputy Premier and Treasurer of the province, were against casino gambling. I'm not suggesting for a moment that that's the only issue or even a major issue upon which the New Democratic Party was elected to power, but the reality is and the facts are that prior to that election the Premier was certainly definitely on record as being against casino gambling and so was the Treasurer of the province. When a government significantly changes its direction—governments, I suppose, are entitled to do that from time to time, but when they

do that, perhaps they should ask the people of Ontario what they think about this 180-degree reversal of form by the leaders of the current government.

Also, I've heard the argument used that referendums or plebiscites are not part of parliamentary democracy. Then why did we go through the very expensive and time-consuming exercise of having a referendum Canada-wide, as I recall, wholeheartedly endorsed by this government and this Premier, and by myself, I might add, on the Charlottetown accord? Was that all just an exercise in futility? Did we spend months and years and millions of dollars on something that you now say has no place in our parliamentary democracy? It seems to me that referendums are good when it suits our political purpose, but when it doesn't suit our political purpose, they ain't good and they ain't part of our system. That's what I seem to be hearing from the government.

Mr Duignan: No, that's not what you're hearing from the government. There's a big difference between a constitution of a country and a bill of a provincial government. Why didn't the Tory government in Ottawa have a referendum on the GST, a referendum on free trade or a referendum on NAFTA? Why single this out?

Mr Carr: They ran on both those issues.

Mr Duignan: Or indeed on the whole question of separate school funding in this province not many years back? There wasn't a referendum there either.

Mr Carr: Free trade was the biggest issue in 1988. What do you think the big issue was? Where were you? They said, "We want free trade"—

Mrs Irene Mathysen (Middlesex): Fighting against it, Gary.

Mr Carr: What do you think the election campaign in 1988 was?

Mrs Mathysen: What was the one in 1984, Gary?

Mr Duignan: Remember the separate school funding? Remember how the Tories did that round-about, 180 degrees?

Mr Kwinter: Much has been made about the issue of why casino gambling and why not lotteries and horse racing and all of these other things that were not taken to a referendum. I don't have the answer, but I do know this: that in virtually every jurisdiction in North America when casino gambling has been introduced, it has been controversial and in most cases has been settled by a referendum.

I don't want to argue why it should have been, but I'm sure you'll know that we heard in the state of Michigan they had a referendum four times and it was defeated narrowly in all of them. I happen to have a place in Florida; they've had seven different referenda on casino gambling. Many other jurisdictions have put it to a vote, for whatever reason. The simple observation is that in the minds of Ontarians and in the minds,

obviously, of people in North America, there is a difference.

I don't want to argue the merits of what is the subtle difference between charity gambling and casino gambling. There is a perception, both positive and negative, that when casino gambling has come, it is going to change for ever the face of the community that it's in. I don't want to debate whether that's true or not, but there is that perception.

As a result, without arguing the merits of casino gambling or not, I think it's a valid concern. As politicians, surely you know that there are many arguments that are debated in which the facts have got nothing to do with the argument. There is a perception out there that there's a problem, and you've got to fight the perception. You can't wage that battle trying to fight the reality, because you'll lose it every time. What you have to do is that there's a perception out there, and again I don't want to defend the perception, that casino gambling is somehow different.

1440

It's exactly the same perception that if you have a glass of whisky, it is more socially condemning than a glass of beer, even though they may have exactly the same alcohol content, or a glass of wine. That is a perception that is out there, and the spirit alcohol industry has been spending hundred of thousands if not millions of dollars trying to convey the impression that a drink is a drink is a drink.

Without arguing the merits of it, I'm saying that with casino gambling there is a perception out there that once it comes, it's going to have a social, economic and psychological impact on the residents of that area and that they would seem to feel that they should have some say as to whether or not they have to be subjected to it.

Mr Duignan: Again, I remind the members of committee there was no referendum in British Columbia, there was no referendum in Alberta, there was no referendum in Saskatchewan, there was no referendum in Manitoba and certainly no referendum, or even going to this extent, in Quebec, and those provinces are held by governments of all three stripes.

The Chair: Shall PC motion section 5.2 carry?

Mr Kwinter: On a point of order, Mr Chairman: Are we talking about the original one or the alternate one?

The Chair: We're talking about the original one at this point in time.

Mr Duignan: We withdrew that one.

The Chair: We will deal with the alternate—

Mr Duignan: We withdrew that one.

The Chair: Yes, but there's another 5.2 that we're going to deal with very shortly.

Clerk of the Committee: Oh, is that what you're

asking as opposed to the alternate?

The Chair: Do you want to clarify, Mr Kwinter?

Mr Kwinter: I have two proposals in front of me. One of them is 5.2 and the other one is alternate number 1 of 5.2.

The Chair: That's right, and this is the 5.2. This is not the alternate we're dealing with at this point in time. This is the original 5.2.

Mr Kwinter: It calls for a province-wide referendum.

The Chair: Yes.

Mr Kwinter: That's all I wanted a clarification on.

The Chair: Sorry that it wasn't done more simply. We're going to vote on this PC motion on section 5.2 that deals with a province-wide referendum. All those in favour? Opposed? That motion is lost.

Mr Carr: Was that a recorded vote?

The Chair: No, that wasn't a recorded vote. Are you asking for a recorded vote?

Mr Eves: Yes, we'd like a recorded vote on this. That one and this one, please.

Mr Carr: I know you know who we are, but—

The Chair: All those in favour?

Mr Eves: Forget it. I wouldn't want to upset Carman.

The Chair: This is one of the most cordial committees I've ever worked on.

Mr Carr: On a point of order, Mr Chairman: I don't know if it would be appropriate at this time to ask for this, but in light of this motion being defeated, I was wondering if it would be possible to get from the parliamentary assistant or the government any polling that they've done on the casino issue. Would it be appropriate to ask at this time if they could provide it since we're not going to have a referendum, assuming now they've done polling to see what the numbers add up to? Would it be possible to get it from the parliamentary assistant or the government?

Mr Duignan: Let me get back to the committee with an answer on that.

The Chair: That bring us to the alternate PC motion called section 5.2. Mr Eves.

Mr Eves: I'm going to slightly amend the wording of the motion as I read it.

I move that the bill be amended by adding the following section:

“Referendum required

“5.2(1) The corporation shall not provide for the operation of a casino in any location until the operation of said casino has been approved by a referendum of the municipality in which the casino is to be located.

“Chief election officer

“(2) The chief election officer shall be the chief election officer for the referendum.

“Question

“(3) The question put on the referendum ballot shall be in English and French as follows:

“Are you in favour of gambling casinos being operated under the OCC act?

“Conduct of referendum

“The chief election officer shall conduct the referendum in the manner set out in the regulations made under this act.”

I think we've pretty well debated, maybe to death, the issue of referendum. As Mr Carr has stated, we would have preferred that it be a province-wide referendum, but having failed in that request, certainly the next-best thing would be that the public in a municipality in which any particular casino is to be located have the right to express their opinion, either pro or con, about casino gambling in their municipality.

As Mr Kwinter, I think, has rightly pointed out, in the overwhelming majority of jurisdictions in North America where this has been adopted, or turned down for that matter, there have been plebiscites or referendums seeking the public's opinion as to whether or not they were in favour or not in favour of having gambling casinos introduced into their municipal jurisdiction. I take the comments of the parliamentary assistant that that has not been the case in Canada in some other provinces.

I would also point out that there is quite a difference in what sort of casino there is in some other provinces. For example, in the province of Manitoba there is one casino, and one casino only. It's fully operated by the province of Manitoba and it's on a fairly small scale, if I might say so. That's no more similar to the one in Windsor than the Atlantic City one, and, as I'm told time and time again by the minister, the parliamentary assistant and members of the government, “You can't talk about Atlantic City when you're talking about Windsor because they're two different things.”

With all due respect, if that's the case, it's two totally different things between the Fort Garry, province-operated, small, dinky casino in the city of Winnipeg and the grandiose scheme that the province of Ontario is planning for a private operator to run in the city of Windsor, no doubt soon to be expanded into maybe four, five or six other municipal jurisdictions within the province. I think they're two totally different things.

However, be that as it may, the basic issue here is whether you're in favour of providing people in their local municipality with the right to determine whether they want gambling casinos or not, and I think that it would behoove us to do that.

Mr McClelland: I think anything that could be said about the advisability of referendums has been said. I

can only echo and add my support to the comments made by my two third-party friends and Mr Kwinter on this issue.

We are particularly in favour of the municipal option for one overwhelming reason, and I suppose a couple of secondary reasons. You will remember, Mr Chairman and members of the committee, that as we travelled from place to place around the province, there was a different vision. By way of example, those in Ottawa who are behind the idea of a casino, particularly merchants and people involved in the development industry, and perhaps more important the elected officials, have an entirely different vision, an entirely different concept in mind than do similar individuals in Windsor.

Similarly, I would say that those in Niagara express some particularly, if you will, parochial views, and I don't mean that in a pejorative sense. Each community has their own distinct features and expectations, has an idea of how they would like to run it, where they would like to run it and some of the bells and whistles that they would like to see with their project.

Having said that, I think that given the difference in visions and concepts from city to city or municipality to municipality, it makes a great deal of sense from a practical point of view to allow them to pass judgement on a particular concept as articulated by proponents and city officials.

Without taking anything away from the concept of the original section 5.2 moved by Mr Eves, I think it is less efficient less telling than the alternate 5.2, which adds the local flavour to the question to be put.

For all the reasons said before and with that particular qualification of our reasons for supporting the local option, I can only say that we wholeheartedly support that; indeed not only wholeheartedly support it but think it expresses the sentiment of so many people, indeed proponents.

I recall hearing from the mayor of Sault Ste Marie and the mayor of Niagara Falls, to name but two, that they would be pleased to go ahead with a referendum. In fact they had the confidence that they were on the right track and in a sense said, "We're prepared to, if you will, raise the windsock and see which way the wind is really blowing and either confirm or qualify our perception of where our community is."

1450

I think the other thing that would serve people well is that it would allow them an opportunity to really canvass, and I don't say this in a judgemental sense of those that have jumped on the bandwagon, a very thoughtful analysis of the benefits that would be brought to the community.

There would be a sense of sitting back and saying, "Okay, we have to really walk this one through," rather than that sense I think we experienced everywhere we

went of, "We better get on board, we better jump on this bandwagon before it passes us by." I think it provides an opportunity for reasoned, well-thought-out debate at the local level by opponents, proponents and those who are somewhat ambivalent, who take an attitude of, "Wait and see, show me the facts, let me make a determination based on the data brought forward." For those reasons, I'd be very much in favour.

Our party would not only be in favour, we would urge strongly the consideration of a referendum for all locales, specifically those that have not yet been determined from a time frame point of view, if indeed the government is consistent with what it has stated as far as its plans of having a monitoring time period with the advent of the Windsor casino. The 1994 municipal election would allow that to be put on the ballot and also allow it to be a campaign issue at the local level.

I think from the practical reasons set out earlier and the differences from place to place across the province, different makeup of communities, different visions, and from the time frame, from the critical path point of view, you have ample time to do it, given the option of a ballot question for 1994. It could only serve, it seems to me, each community well, serve local leadership well to deal with the question, perhaps in the final analysis serve those of us who sit in the provincial House well to give us the confidence, the assurance that we have in fact listened to the people.

Let me say on a more general note that the more I talk to people in my community, indeed as I travel across the province, there's a real sense that people want to participate on issues that are of concern to them. It wasn't too, too long ago that we used to vote on issues of wet and dry counties, if you recall, and I think it's the same kind of issue.

As Mr Kwinter has so well said, there's an awful lot of emotion out there. There's an awful lot of perception in allowing a referendum to proceed. You cut through a lot of the rhetoric, you cut through a lot of the emotion, but more important, you allow people to take ownership and responsibility directly. They have an opportunity to really get their shoulder to the wheel, for or against, or on a wait-and-see, and to ferret out the facts and the implications for each community.

We very, very strongly support—and let the record show very clearly that the Liberal caucus feels that this perhaps is pivotal in terms of either our support or our opposition to Bill 8. I would say quite frankly in the absence of this, I think that our caucus, our party, would be very hard pressed to support the legislation.

We feel that very clearly the government has stated quite candidly and appropriately the intent of the legislation as being permissive in nature. Our party believes very strongly that there is a changing reality in the way we do the business of politics in the province, that the time for direct citizen participation has come on

issues of this nature, and we see this as a pivotal issue. I want to indicate that we had an amendment that was not quite exact but very, very similar and feel that without this, we'll be hard pressed to support the legislation.

Mr Sutherland: It's very interesting listening to Mr McClelland talk about what he called the local option of the referendum, but in supporting the amendment put forward by Mr Eves, he isn't giving them any option.

He further went on to talk about the diversity across the province, different views, different ideas in different communities, and maybe different communities have different ideas on how they should make decisions about what activities go on in their communities. There is the local option right now.

There's nothing preventing any community from holding a referendum right now on the question of a casino, if they want to put it on the ballot in 1994, or after that, if they wanted to hold a referendum at that time, so I don't think you can talk about the local option, I don't think you can go along and talk about all the diversity in the province and different ideas and views, and then come along and impose upon every municipality, "You've got to have a referendum to decide that."

If there is a groundswell of support in a local community asking the municipal council to have a referendum, then fair enough. Those people who are elected have to be accountable to their constituents when it comes to election time, and they will be held accountable if they don't hold the referendum. But in the meantime, they still have that option. Not every community will want to make that decision in the same way. They should be able to retain that flexibility, the flexibility they now have, by having a real local option, not a perceived local option by saying, "Yes, you must have a referendum."

Mr Carr: The problem I have, and I'll make the case: We were just down in Niagara Falls and, as you know, the mayor came in and said that council supports it and most of the people are in favour of it. As we all know, there were a lot of people watching in the audience who were opposed to it who all wore yellow. I sit back and say, in this particular case, if you were to take the number of people in the audience, it was probably opposed. If you took the number of people who came forward, I think most were in favour. I think only two groups were opposed.

You look at it and say, "Do the people in that area want casinos?" I think having the local option, having it on the referendum—and it won't be on. The municipality won't put it on because they want it. The mayor came before us and he thinks, I think probably rightly so, he has the support of the population. I don't think any elected official would do something that he knows would be unpopular and against most of the people's

wishes. I just think this will be a definite decision that no one can argue with, and it would allow the people of Niagara Falls to say yes. I don't think either side, either pro or con for casinos, could argue if a referendum was held and it was left up to the people. Then we wouldn't have the dilemma that we do now, saying, "Do the people in Niagara Falls want it?"

I know when we heard the debate down there, the government said, "We want to proceed slowly. There is enough time to put it on the next municipal ballot and decide it once and for all in most of these areas," and so I think it can be done and I would hope that the government would look at it.

Failing that, as I mentioned in the point of order, I would hope that we might be able to get some type of polling that the government has done, and in particular—I did mention this when I did my point of order and I know the parliamentary assistant is looking at it—if there are any regional breakdowns, because most of the polling that is done is done on a regional basis, whether it's southwestern Ontario or whatever. I think the best way to get a clear indication is through a referendum when people actually go out and check the ballot. Failing that, I think it would be helpful to members of this committee if the government would table the polling that I know it has done on this issue with the regional breakdown. We'll look forward to it. I hope it will be the referendum, because I quite frankly trust that more than polling. But in the interest of helping deliberations with this bill, if there was any polling, I think it would be helpful.

Mr Kwinter: Just a matter in the drafting: In the event that this amendment should pass, I really feel that the question should have the Ontario Casino Corporation Act spelled out, because if that question was ever asked, it would have no meaning to anybody other than the people who have been sitting at this committee.

Mr Eves: Absolutely.

Mr Phillips: Just to speak in favour of the motion, the overwhelming message I get from all of the hearings we've had is that this is like a gold rush. People are just blinded by this stuff. Frankly, I see it even here in the committee. I see it in the people who are working on it. I see it in response to questions we ask. It's like nothing I've ever seen before. This is going to be a goose that will lay golden eggs for ever.

1500

It's just a concept that people have now embraced: "Golly, 20,000 people a day coming here. We'll be rich." I don't think communities have had to articulate what they are going to get their community into. Let's face it, this is not like anything minor. When you talk about 20,000 people a day coming into a community, a \$250-million new facility, theoretically a couple of thousand jobs, all of these things fundamentally change the character, both good and bad, of a community.

I think the referendum would force the advocates, and there will be strong advocates, many with, obviously, huge vested interests, to spell out to the community what they have in mind for the community. Right now, frankly, it's difficult for anybody in the community to stand up, as we've seen, and argue against it because, as I say, "This thing is going to throw off jobs and money and we'll all be rich."

As I say, this isn't any small measure in a community; this is a fundamental change. If a community is going to be swept up in that fundamental change, I think the people who are planning it have an obligation to take it publicly, defend it publicly and give people an opportunity to comment on the new community, because they will live in a different community the day after the thing opens than the day before the thing opens. There's no doubt about that, particularly communities where it's going to be the major, the number one employer in the community. So that's the reason I support it. It's not like a small matter; this is fundamental.

Mr Sutherland: In response to that point, I'd come back and look at, for example, some of the projections that Mr Henning has put forward for the theme park or whatever he wants to build in Niagara Falls. I believe the Ghermezian brothers were talking about building another West Edmonton Mall-like complex in Niagara Falls at one point. For that type of economic activity, which could bring in 10,000 people a day, should they have to have a referendum on that as well? That may change the fabric of the community if 10,000 or 12,000 people are coming in a day to visit a facility like that. Where do you draw the line on what type of economic activity there should be a referendum held on which may significantly change the fabric of the community?

Mr Eves: I just wanted to clarify the wording of the question in subsection (3). I take Mr Kwinter's suggestion: "Are you in favour of gambling casinos being operated under the Ontario Casino Corporation Act?"

The Chair: Shall PC motion alternate 1 carry?

Mr McClelland: Could this be a recorded vote? Rather than go through the motions twice, I thought I'd advise you we'll be asking.

The Chair: A recorded vote on the PC motion, section 5.2. All those in favour?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips.

The Chair: All those opposed?

Nays

Duignan, Martin, Lessard, Mathysen, Sutherland.

The Chair: The motion is lost.

Interjection: What's the score so far?

Mr Eves: We're batting a thousand.

The Chair: That brings us to the PC motion, section 5.3.

Mr Eves: I'm withdrawing our proposed amendments to sections 5.3 and 5.4. You can speed right along to section 6.

The Chair: I should bring it to the attention of the committee that the Liberal motion and the PC motion are basically the same for 6.3.

Mr Kwinter: In light of the PCs withdrawing their proposed amendments 5.3 and 5.4, could I ask a question of the parliamentary assistant? Considering that for all intents and purposes proponents are going to be tendering on the operation of this casino—they have been given a request for proposal and nine of them will be making a proposal and one of them will be accepted. Once that is accepted in the normal course of events, like any other tender, will the terms of that proposal be made public?

Mr Duignan: Yes.

Mr Kwinter: So all of the terms and conditions that will be entered into by the government with the proponent will be made public?

Mr Duignan: Not the contract, but the proposal.

Mr Kwinter: Can you explain the difference?

Mr Duignan: To the extent that is permissible under the law, we would be more than pleased to make it public. There could be portions of the contract subject to the freedom of information act pertaining to financial information, for example, of the proponent. Those parts of the contract which are permissible under the law, we would be more than pleased to make public.

The Chair: The next section we're going to deal with—it was brought to our attention by Mr Eves—is a PC motion labelled section 6.1. It should actually be 6(1).

1510

Mr Eves: Basically, all I'm doing is being consistent—perhaps it's a housekeeping amendment more than anything—but similar to subsection 5(1), which starts off with the words, "Except as limited by this act."

I move that subsection 6(1) of the bill be amended to read as follows:

"Except as limited by this act the corporation shall comply with any directions given to it by the Lieutenant Governor in Council."

That's being consistent with what is in subsection 5(1) of the act, and I understood from the parliamentary assistant yesterday that the government would find that amendment to be in order.

Mr Duignan: The amendment is in order and is quite agreeable to us.

Mr Eves: You've got to vote for us now, Kimble.

Mr McClelland: I want to note that it breaks up Mr Eves's perfect game, and I do have some concerns about that. It was his first in a long and illustrious career.

The Chair: If there's no further serious debate, all those in favour PC motion subsection 6(1)? All those opposed? It looks like it's unanimous.

That brings us to a PC motion and a Liberal motion, which are identical, so I guess as the Liberals are the official opposition we'll allow them—actually, we have to deal with both motions but they are the same. Maybe we could have an agreement to deal with one or the other so that we don't duplicate—

Mr Eves: I would be quite happy to deal with the Liberal motion and withdraw ours.

The Chair: Thank you, Mr Eves. Liberal motion, subsection 6(3).

Mr McClelland: With respect to subsection 6(3), I move that subsection 6(3) of the bill be amended by striking out "nineteen" in the second line and substituting "twenty-one."

The Chair: Can you read that exactly as it's going in, Mr McClelland, please, just so there's no discrepancy between the motion as presented and how it will be recorded.

Mr McClelland: I move that subsection 6(3) of the bill be amended by striking out the word "nineteen" and replacing it with the word "twenty-one."

Mr McClelland: We heard particularly from the city of Windsor, from both the mayor and representatives of council and the police chief, among others, their concern with respect to the traffic that will be coming over from Detroit. I want to offset that at the outset by saying that Dr Ron Ianni made what I would consider to be a very well-reasoned, philosophical defence of the position of keeping the age of majority as it is currently embodied in the legislation as the effective age. Far be it from me to question the wisdom and judgement of somebody of his stature. However, I want to add to the debate that I actually had outside of these doors with Dr Ianni that he hadn't taken into consideration, quite frankly, the concerns of the chief that there would be a particular draw, if you will, from the Detroit market.

As you know, the projections are that there will be some 12,000 visitors a day and it is hoped that as many as 80% of that number will be drawn from the US side of the border. The age of majority or the drinking age in that jurisdiction is 21. There is clearly a tie-in, if you will, with the sense of accepting responsibility and education and, I suppose, a package of societal values that goes along with that. It has been suggested in response that we could have an education program to ensure that those who are of a younger age, ie, 19, 20 years of age, would be given some opportunity to be educated in terms of their responsibility.

The experience of the chief of police and the women and men who serve under his leadership has been that they encounter a disproportionate number of calls and difficulty resulting from the 19-to-21 age group—I'll

say it clearly and I'll say it candidly—coming over from the United States. Their reasoning or their feeling is that this is in large measure, if you will, that the cork is in the bottle and they come over and it sort of pops wide open when they get over to Windsor because they don't have the experience or the opportunity to engage in social drinking and the responsibilities that go along with it in their own jurisdiction, and sort of a pent-up desire and a pent-up need is realized in Windsor, with some downside consequences.

I can't, quite frankly, in good conscience question the judgement of the chief of police and his officers. Likewise, the mayor who sits on the police services commission has supported the chief in that regard. It seems to me that you have a very particular problem that has been identified, with the locale being Windsor, the huge market, some of the problems, without getting into a sociological dissertation or discussion, of Detroit being imported into Windsor. We are now going to add to that and effectively go out and advertise, trying to bring people in. If a problem already exists, I think that a reasonable and perhaps the only conclusion can be that the problem will be exacerbated by the fact that we'll be bringing in huge additional numbers that would include that particular population, that demographic.

The police chief says very clearly that it has proven to be a problem for him. I think that in the interests of the city, in the interests of the residents there, the merchants who are in support of the police, we have an obligation to provide him with as little downside effect to deal with as is reasonably possible. I do not think it would put in jeopardy the project; I do not think there would be such a negative impact on the flow, both in terms of cash and population, that it would offset the viability of the project.

Quite frankly, if one looks at it from a cost-benefit risk, it seems to me that the potential cost has been laid out fairly clearly in a fairly reasoned fashion by the chief of police and other officials in the city of Windsor. I can't add to what he's said. Most members of the committee heard it, were present or it's certainly available on the record. I can only say that in response to that, I think we have an obligation to do what we can to offset the problems that the chief feels will be there. That's the rationale for changing the age to 21.

Mr Kwinter: I'd also like to speak in favour of this amendment. I apologize to the committee. I had an article that appeared in this week's *Business Week*. Interestingly and coincidentally, one of them deals with casino gambling and the other one deals with the city of Niagara Falls. I had them duplicated and I rushed out of my office at noon today and didn't bring them, but I'll share them with you tomorrow.

The article is by a Nobel laureate. He has an interesting hypothesis about why casinos should be supported. But the interesting thing—there are a few interesting

things in it—he talks about the profile of the typical casino visitor. They are traditionally middle-aged and older. Casino gambling is not an activity that is particularly attractive to very young people.

When you consider that most of the proposed casino sites we're dealing with are at border communities and most of the targeted market is in the United States, it would seem to me that you're going to skew the profile of the typical attendees at a casino by the fact that what is going to be driving them to the casino isn't so much the casino; it's the fact that they can go and drink. I think it's just going to complicate a situation that's going to have enough complications of its own.

1520

If you had a market you knew was being aimed primarily at people in Ontario, I would say there should be no real problem. But when you recognize where your market is and the fact that, for whatever reason, in the United States the drinking age is 21 and in Ontario it is 19—that in itself has already created some problems for some border communities—it could only be exacerbated when you have another incentive and another attraction, where some people who may not even think about it will say, "Oh, well, we can go over there and we can do these things." I think it's an alcohol-related restriction, as opposed to a gambling-related restriction.

It would be interesting to know if any of the research people can tell me if the age restriction in casinos in the United States is 21. You may be able to go in, as we found out in Sault Ste Marie, Michigan; you can work serving drinks in the casino at 18; you can do all those things. You just can't drink and you probably just can't gamble for the same reason, but it's all alcohol-related. I don't think it's so much gambling-related.

I just feel that without the restriction, you're going to just, as I said, exacerbate a situation that's already there. I know that some will argue the situation is already there. Anybody who wants to, from the United States, can come across the border and drink and they do it. All you're doing is adding one more reason why they should be doing it and compounding a problem that has already been identified, certainly in Windsor, and I predict the same thing would happen in Niagara Falls, Sault Ste Marie and anywhere else where they're going to be dependent on that cross-border patronage.

Mr Eves: I would like to support this amendment. First, I think Mr McClelland has indicated the city of Windsor—the many witnesses that appeared before us in Windsor, including of course the mayor and the chief of police—asked that this change in the age be made from 19 to 21. I think that it is incumbent upon us to acquiesce to their request.

I think Mr Kwinter makes a good point. I think that in most jurisdictions where they have casino gambling in the United States, you will find that the age limit is 21. That may be because the age of majority in that

particular state is 21. I haven't really looked into that. However, we do have an unusual—

Mr Duignan: The problem is that the drinking age is 21 too.

Mr Eves: I'm reading from a copy of the letter that was sent to the parliamentary assistant by Mr Alfieri with respect to this issue.

We already have some anomalies in our system. For example, you can't drink in the province of Ontario until you're 19, but when you're 18 you can serve liquor. Surely that is a similar situation to the fact that is raised in this letter about, how could you deal in blackjack if you're 19 or 21 if the age limit for the casino is 21? Well, how can you serve liquor in a licensed establishment if you're 18 when the age for drinking is 19? Obviously, the province found its way around that when it wanted to. Surely the province can find its way around this if it wants to.

I think there has been a fairly decent case made, by the chief of police in the city of Windsor and by others, for seriously considering the age restriction or limitation of 21. If the government is not satisfied that that request is an appropriate one, I'd like to know what research or documentation it has to substantiate its argument that it's quite appropriate to leave it at 19.

I just think that here we have a municipality that, as the government points out, has wholeheartedly endorsed the idea of a casino, wants a casino in its boundaries, has made a very specific request by numerous witnesses, including none less than the mayor and the chief of police, that the age restriction be 21, and here we are saying: "We know what's better for you than you do. Too bad. Thank you very much for your advice but we're going to leave the age at 19." I just don't think that's appropriate.

Mr Carr: On some of the other amendments that will be coming forward you're going to hear the rationale behind it as being that the city and the mayor of Windsor want it. It's interesting the government picks out the ones it wants and justifies it when it chooses to, and then when the mayor and the police chief want this substantial amendment it chooses to ignore it.

I know Carman and I spent some time going out when we were in Windsor and had some discussions with one of the police officers who was out and about. She told us that they do in fact have a problem with the 19-to-20-year-olds drinking, and that a lot of the problems are the Americans coming over who can drink between 19 to 21 years of age and creating a lot of problems in the city of Windsor now with the Americans coming across.

I believe, and maybe the parliamentary assistant will speak to this, the reason they're leaving this as 19 is they want those Americans to come over. They say 12,000 a day, of which 80% will be Americans. I think

they don't care if 19-year-olds come over and lose a lot of money if they're Americans between 19 and 21 if they're going to spend money and drink. I don't think they see the downside in some of the problems that will be created in terms of crime. That is the high population age group for crime. Already in Windsor the police we spoke to on an informal basis say that the Americans coming over are creating problems there with the drinking and the fighting at night at the various bars.

I think the government sees the numbers coming over. They know they're going to be spending a high proportion, like they do right now, buying the liquor and the beer. I think they don't care. As long as they get them over spending the money in the casinos, I think they don't care; otherwise, I suspect they probably would have followed the advice of the mayor of Windsor, who wants this.

I think this is going to be the key age group where you're going to have trouble; you already do in the city of Windsor with this group coming across. If you include them as being allowed to gamble, I think it's going to be the single age group where you're going to have problems.

The chief of police, in front of this committee, talked about the problems with those people in the age group; it wasn't just us talking to the police informally. But I think, by refusing this, the only thing one could deduce is that the government doesn't care. If the Americans are 19 and they come over and want to spend their money, they are going to take it because they see that as a big bulk of where they're going to get the revenue. This whole thing, as I've said all along, has been driven by revenue. Hopefully, the government will change its mind and listen to the mayor and the police chief.

Mr McClelland: I want to anticipate one of the arguments, quite frankly, and try to dispel it right up front. We'll be told, I suspect, by the parliamentary assistant—he may not have said this but he certainly had this discussion privately, not in the confidential sense but just off the record—that the opinion rendered to the project team is that to change the age from 19 to 21 would require a defensible rationale.

By way of example, it was suggested that the so-called Offer report, a report of a committee of the Legislative Assembly that travelled, I believe, in 1985-86 and rendered a report to the Legislative Assembly, resulted in the changing of the drinking age from 18 to 19. The rationale was that report provided us with some substantive information and an apology, to use the word in its strictest classical sense, for changing the age.

1530

If you'll bear with me in terms of walking this through the logic, we now have a situation where the Legislative Assembly has gone to a particular jurisdiction, has done specifically and precisely on a local level what the so-called Offer report did province-wide in

1985-86. Now we're faced with this dilemma, it seems to me from a logical point of view that we need a rationale.

Surely, the testimony brought before this committee is exactly the same kind of rationale that legally justified—we're not talking about a political opinion or a decision—that gave legal justification for changing the age from 18 to 19. I think one would be very hard pressed to defy or to offset that conclusion.

If it was the opinion of legal counsel that a report of the Legislative Assembly justified changing the drinking age, surely it follows that the professional testimony given to this committee would be sufficient rationale to change the age for a specific locale and a specific operation.

If somehow that isn't the case, I'd be interested in hearing it from the parliamentary assistant, because he can't, it seems to me, depend on your rationale being the hearings of a legislative committee on one hand and say, "We don't have any rationale to do it in this case," when in fact the expert testimony and I will take a leap or qualify, in my own mind, the chief as an expert who provided, I think, the best evidence that we could have heard with respect to this issue in the city of Windsor.

So it seems to me that the argument that may be brought forward and I want to deal with up front must be that I think you have the rationale. You have it from a professional law enforcement officer; you have it from people in the city. I just can't, quite frankly, accept the government's argument that there is no defensible rationale for changing the age.

Mr Wayne Lessard (Windsor-Walkerville): As has been indicated, this was a suggestion that was made by the chief of police for the city of Windsor, Chief Adkin, and he was supported in that recommendation by the mayor, by some business people in the city, by the chamber of commerce, by the convention and visitors bureau and by the Cleary Convention Centre as well. It's also a recommendation that was made early on by the city of Windsor casino convention centre committee in its report of May 1992, so it's been fairly consistent in the city of Windsor.

The chief speaks from a great deal of experience and I've shared some of that experience as well. I've gone out with the police in the city of Windsor on a Saturday night and travelled around with them and I've seen the sorts of problems that are caused by young people who come over to Windsor and consume too many alcoholic beverages and, for whatever reason, decide to beat each other up in parking lots. I don't understand the basis for that sort of activity or why people find that entertaining, but that's what happens in the city of Windsor.

I know that the chief's interests are only with respect to public safety and the wellbeing of citizens in the city of Windsor, and although I know that this isn't really an

issue that's going to have a significant adverse impact on public safety in the city of Windsor, it is something that causes a disturbance on a regular basis to have young people come over to Windsor and consume alcoholic beverages and get in trouble.

As has been said in other jurisdictions, the drinking age is 21 and there must be some good reasons, I would assume, for that age to have been chosen. I know that if we were to suggest that the age be 21 instead of 19, there is the possibility of there being a challenge under the Charter of Rights and Freedoms and we may not be able to defend that challenge.

However, I know that the chief is only concerned about, as I said, the public safety and wellbeing of the citizens of the city of Windsor, and he's also indicated that he feels, in order to maintain that, he needs a certain number of police officers in the city to do that.

Up until this point, we know that there hasn't been an agreement as to the number of people that the police chief feels that he does require in order to that. I'd feel a lot more comfortable dealing with this amendment if I felt that the chief and the government had come to some agreement with respect to the number of people he may require to maintain public safety and the wellbeing of people in the city of Windsor. I would ask that we defer consideration of this section.

The Chair: Mr Duignan, I believe, wanted to complete this round of discussion with a comment. Mr Duignan, Mr Lessard has suggested that this motion be stood down. I wasn't sure if you'd heard that.

Mr Duignan: I wasn't aware of that. Given the fact that Mr Lessard wants to stand this motion down, I will stand it down and use my arguments at a later point.

Clerk of the Committee: It's a Liberal motion. It's not his motion.

The Chair: It's a Liberal motion.

Mr Duignan: Oh, it's a Liberal motion. I'm sorry.

Mr Phillips: You're against it.

Mr Duignan: I'll make a couple of comments. First, we're in sympathy with the police chief and the mayor of Windsor and the problems they're having with the 19- and 20-year-olds from Detroit. Monte hit it on the head when he said it's alcohol-related. Don't forget that we will be serving alcohol in the casino, but not on the gaming floor. In fact, people will be able to go to a casino to get a drink, but not be able to gamble under this proposed amendment.

So that doesn't mean necessarily that disturbances will stop. They still will be able to get a drink; they won't be able to gamble.

Mr Eves made reference to the fact that I had sent him a copy of a letter I had received from the assistant deputy minister on the whole question of the 21-year-olds, and I would like to read a couple of paragraphs

from this particular letter, which makes a good argument on the fact that we feel that this would not stand a challenge under the Charter of Rights. Let's begin at the third chapter, which states:

"The charter guarantees equal protection and benefit of the law without discrimination on the basis of age. The age of majority is 18. There are many laws which draw distinctions on this basis of age. Currently in Ontario the age of 16 is set for driving and withdrawing from parental care. The age of 18 is required for voting, contracting and for gambling outside of casinos, and a higher age of 19 has been set for drinking alcohol.

"When the drinking age was raised from 18 to 19," I think reference was made to "the Offer committee toured the province and consulted widely with a whole range of interested parties. The drinking age was at that point raised to 19, based on extensive data that justified the action."

If the opposition can provide us with extensive data that would justify moving the gambling age from 19 to 21, we would be prepared to hand it over to our constitutional lawyers to review. But the decision to move the drinking age from 18 to 19 was based on extensive data around that question.

"We also believe that any departure from the age of majority applied in other contexts has to be justified by the government as being reasonable. This justification requires evidence to support the government's stated objective.

"In addition, certain jobs in a casino require that the employees, in effect, play games of chance as agents of the house. This includes blackjack dealers, baccarat dealers and other table games. If individuals under 21 are not permitted to gamble in a casino, this would also exclude 19- and 20-year-olds from these jobs.

"In order to justify drawing the line at age 21, the government would have to demonstrate that 19- and 20-year-olds, while mature enough to do everything else including gambling at racetracks, bingos, charitable casinos and lotteries, are not mature enough to gamble at casinos. In the absence of such evidence, there is real likelihood that a higher age limit would not be justified under the charter."

If the opposition could provide extensive data as is provided under the Offer report, we would certainly be most willing to give that to our constitutional lawyers to review. We feel at this time there isn't substantial evidence to move the gambling age from 19 to 21.

1540

Mr Sutherland: If anything, just to support what the parliamentary assistant has said, the comments from Mr Kwinter from the articles he's going to distribute would be evidence against that fact, that the majority of people who go to gamble are not young people, they're not in that 19-to-21 age bracket. While I understand the chief

of police has concerns about that, that's fair enough, the issue of policing has to be dealt with. But to say it can't be, to potentially deny those under 21 jobs at the casino when youth unemployment is so high, to deny, to say: "Yes, you can go to a racetrack and gamble. When you're 18, you can buy a lottery ticket, but you can't go to the casino gambling"—the reason you can't is that you've got to be 19, of course, because alcohol is involved there; alcohol is not involved in the other types of gambling activities.

If anything, the evidence would suggest that there isn't going to be a lot of young people coming over who are going to come over for the purposes of gambling. They still may come over and go to the bars and do their drinking and the other activities they've been doing now because of the differential in the drinking age, but I'm sure the marketing information would imply that the 19-to-21-year-olds are not the major target and this casino is not relying on 19-to-21-year-olds to survive.

Mr Kwinter: I'd like to respond to the last comments and the comments of the parliamentary assistant. It's precisely because of the profile of the average casino-goer that I think there is a problem. The Offer report happened to be initiated during my tenure as the Minister of Consumer and Commercial Relations. Steven Offer was my parliamentary assistant and I gave him the mandate to go out and examine that issue.

You probably will know that we also had an initiative for beer and wine in the corner store, and the big argument was: "How can you be selling beer and wine in the corner store when youngsters are working in the stores stocking shelves? They won't be able to work there," which is patently absurd. Just because you're selling a product doesn't mean you have to be of age to use it. You don't get contaminated because there are bottles or cans on the shelves. As a result, that was an argument that was put forward, but it had no validity.

You'll remember, those of you who visited the casino in Sault Ste Marie, Michigan, that people under the age of 21 were permitted to work in the casino. They could work; they just couldn't participate. They could do all of the things: They could act as a dealer, they could do everything they wanted to do; they just couldn't gamble.

So what happens is we have a situation where that is not an issue. It doesn't restrict anybody from any kind of labour. The problem we have is that we've heard several people say they are not really targeting the Ontario taxpayer. They are not trying to remove from the Ontario taxpayer their hard-earned dollars; they're trying to earn revenues from the tourist dollar.

My concern, and obviously the concern of the chief of police of Windsor and the chamber of commerce and the other six or seven different groups that endorse age 21, is that there will not be any great hardship imposed on anybody other than resolving a problem. For those

citizens of Windsor who are under the age of 21 and can't go into the casino, that will not be a severe hardship, because the demographics and the profile of the casino-goer shows they're not a major target group.

My concern, and I'm sure the concern of the police chief and the others, is not so much the casino per se, but the fact that the casino will become a high-profile locale or venue and it will attract more of the people who are creating the problems for the citizens of Windsor and, by extension, the would-be people in Niagara Falls or Sault Sainte Marie, Michigan. I would suggest, contrary to what was suggested by the parliamentary assistant, that the total premises of the casino be off limits to those who are under the age of 21 and not have a situation where you go in there to drink but you couldn't gamble, the idea being that you're going to have the problem. I think everybody recognizes the problem; all they're trying to do is contain the problem. By having this high-profile venue, it's going to attract more people who might not come but would be attracted by the mere fact there is this new facility. It would seem to me that to not honour this particular request of the citizens of Windsor is doing them an injustice and is something that I think we're going to have a very difficult time justifying.

I don't think there's a legal impediment to do it. We've already heard from the parliamentary assistant, who read out all of the situations where there are different age restrictions for different facilities. I don't think it's going to create a serious hardship on the operation of the casino, but I do think it's going to solve an irritant and a problem that the people in Windsor and, by extension, the people in these other border communities, will be dealing with. I think it's something that has come through loud and clear to members of this committee. If there was one unifying message we got it's that you should change the age to 21, and we should do all we can to accommodate that.

The Chair: Mr Duignan has indicated Mr Jim Mundy, ministry staff, would like to make a comment.

Mr Jim Mundy: In the interests of informed debate, I guess, the amendment would have the effect of having the bill read, "The corporation shall not permit individuals under 21 years of age to play games of chance in a casino." It would not bar them from admittance to the casino complex. It would not bar them from admittance to the bar, the hotel or any of the other facilities, save and except the gaming floor.

I'd also like to point out that in order to serve alcohol, you don't need to drink with the customer. In order to deal blackjack or baccarat, you must gamble with the customer; you are gambling. It is in fact the case that if this amendment were to pass, there are certain jobs within the casino, on the gaming floor, which you would have to be 21 in order to have, in order to get the job, in order to perform the duties.

Mr Kwinter: Without getting involved in the semantics and getting into a great discussion, the definition of "gambling" is not necessarily playing a particular game. The definition of "gambling" is when you play to win or lose. When you are dealing, you are not winning or losing. You are winning or losing in the game sense, but the employee has nothing to lose. They are hired to play the game. The only person who can win or lose is the player who's playing with them. That employee is not gambling, he is providing a service, and whether the player wins or loses is not impacting on him one bit. He has nothing to gain, nothing to lose. He may lose his job if he's a lousy dealer, but he is not gambling. The only person who is gambling is the person who is playing against him. This person is participating in a game but is not gambling and there is a subtle difference.

Mr Mundy: If you're playing blackjack, you're gambling against the house and the dealer is the agent of the house. The house can win and the house can lose, and you can win and you can lose.

Mr Kwinter: If I play blackjack with you and there's no money changing hands—and this was the whole point that whatever his name was, the guy in Ottawa, was saying. As long as he doesn't take a rakeoff, he is not gambling; he's playing.

Ms Korey: Mr Turmel.

Mr Kwinter: Mr Turmel, right. What I'm saying to you is that when you are an employee playing a game of blackjack, you are not gambling because you've got nothing at risk. You're not winning, you're not losing; you're just playing a game. It's no different than, to use the corollary, you selling somebody a lottery ticket. You are not gambling; you're just selling a lottery ticket. If you're dealing a hand and you have nothing at stake personally, you're not gambling; you're just providing a service. The only person who's gambling is the person playing with you who may win or lose, and that is the difference.

Mr Mundy: The house may win or lose as well and you are its agent.

Mr Kwinter: It's a very subtle distinction. It's the same thing as, again, when I was the Minister of Consumer and Commercial Relations, we had a real problem with putting the onus, with someone who comes into a bar and gets drunk. Are you, as the bartender, liable for that person getting drunk or not? Well, in some cases you are. As a server you have to be able to recognize when that person has exceeded the limit, but until that person exceeds the limit, you are not participating in getting somebody drunk.

It's very much the same thing. You can be 16, 17, 18 and pour drinks without falling afoul of the Liquor Control Board or the Liquor Licence Board. It's exactly the same thing. The only time you have a problem, as

I say, is if it can be proven that you knowingly allowed this person to get drunk. We've had cases like that where someone has gone out, had an accident and the dispenser has been charged. I would love to get a legal definition as to whether or not dealers in a facility where they're being paid to deal are legally gambling.

1550

Mr Eves: Yes, I would agree with Mr Kwinter. I don't think there's a dealer anywhere in a casino in any jurisdiction that would consider himself a player or a gambler. That's a job; they are a dealer; they're dealing on behalf of the house or the casino; they are an agent or an employee for the house, but they aren't gambling.

Gambling, to me, means that you're a player and you're sitting there to win or lose your money. The dealer's certainly not playing with his or her money. They're playing with the house's money, and if you asked 100 dealers, I don't think one would consider themselves a player or that they are gambling. They have a job, and that's dealing cards at the blackjack table. However, I'm sure we could take care of that, if need be, by definition or legislation as well.

However, on to the larger issue. The parliamentary assistant mentioned, "Well, if the opposition, or other people, the people of Windsor who have expressed an opinion that they want the age limit to be 21, provide us with the overwhelming argument and the statistics and the facts, we'd be happy to look at it." I think it's incumbent upon the government to do that research and investigate that issue, the same as Mr Offer did when he was the parliamentary assistant in a previous government. I think it should be incumbent upon the government, with its resources, to look further into this issue.

The overwhelming majority of witnesses who appeared before us in Windsor, including the mayor and the chief of police, among others, indicated that it's strongly their preference that the age limit be set at 21 as opposed to 19. I think the viewpoint that Mr Lessard was putting forth earlier was that he was listening to his constituents, which indeed each and every one of us is elected to do.

I understand the government's reluctance but I really feel it's incumbent upon the government to look into this issue more thoroughly, as indeed Mr Offer did with respect to the drinking age in the province of Ontario. I would say to the parliamentary assistant, surely that's your role. That's the role of government.

Mr McClelland: I just want to say, in this case, particularly with regard to some of the comments made by Mr Lessard, I think it's incumbent on us to err on the side of caution and to be very circumspect about the decision on this particular matter.

Mr Phillips: Isn't the matter, I think, fairly simple? We are attempting to work cooperatively with partners, and the clear partner in this is the city of Windsor.

They've indicated in all their research they have a strong recommendation to us that the age be 21. As Mr Eves said, that to me is the weight of the evidence we have before us. Why would we want to go against the wishes of the group charged with the prime responsibility of setting the climate for this thing by telling them they have to allow 19-year-olds to play when they say, "Based on our knowledge of our drawing area and, after all, 80% of the people who come here are going to be Americans, our strong recommendation is that it be 21"? Why would we not listen to them and let that happen?

Mrs Mathysen: At the risk of entering into a hair-splitting contest, I have some concerns about this whole issue about providing proof. I'd like to say, in reference to what Mr Eves said, that if you're gambling with someone's else's money you're not really gambling, that flies in the face of the logic in regard to lottery tickets and underage children not being allowed to purchase lottery tickets. You could use the argument, "If I give my child money to play lottery tickets, it's not that child's money; they're not really gambling."

The logic is becoming very, very convoluted here. I can see that there's going to be some quite significant problems in terms of providing that body of proof that's required in order to withstand a charter challenge. I merely wanted to add that particular two cents to the gambling pot.

Mr Sutherland: I wasn't at the hearings in Windsor because I was, along with Mr Phillips, dealing with the capital corporations act here in Toronto that week during the hearings, but no one has brought up any substantial evidence to support the fact that the main market of this 80% Americans are 19-to-21-year-olds. The evidence that Mr Kwinter is going to present to us is that the vast majority of people who go to casinos aren't 19-to-21-year-olds, so the major portion of the market is not going to be there; therefore, you're not going to have a significant increase in 19-to-21-year-olds coming over.

The chief has obviously left this sense with the committee and the other people there that, "Yes, we have a problem with 19-to-21-year-olds coming over who are coming over and drinking." They're concerned about that problem, but I don't see how the problem with drinking because their legal age is different is going to automatically relate to the casino, when obviously the 80% Americans are clearly not 19-to-21-year-olds. In the information Mr Kwinter is going to provide us with, they're not the market for people who go to casinos, period.

The Chair: Shall Liberal motion subsection 6(3)? Seeing none, shall the motion carry?

Mr McClelland: A recorded vote, please.

The Chair: All those in favour of Liberal motion subsection 6(3)?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips.

The Chair: All those opposed?

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: The motion is lost.

Next is the new, improved version, the Liberal motion to section 6.

Mr Kwinter: One has been withdrawn. The PC motion has been withdrawn. We've already read into the record and discussed Liberal motion subsection 6(3), and we voted on that. We are now dealing with what?

Clerk of the Committee: It was handed out this afternoon.

The Chair: It looks like a government motion, but it's now called a Liberal motion and there's an addition to the bottom of it.

Mr Kwinter: Oh, 6(5), okay.

The Chair: Yes, 6(5), 6(6), 6(7) and 6(8).

Mr McClelland: Mr Chairman, if I might be of some assistance—

The Chair: I'd appreciate that.

Mr McClelland: The Liberal amendment originally proposed under 16.1 has effectively, or for the most part, been incorporated by the government amendment as put forward under subsection 6(5), 6(6), 6(7) and 6(8). The parliamentary assistant—I say this in all candour—graciously suggested that it be moved by the Liberal opposition inasmuch as I suppose it was largely a product of our original amendment, 16.1.

I might add by way of explanation that there'll be a portion of this numbered subsection 6(9), which the government will reject, that I would like to put on the record, and then deal with those in series.

1600

I move that section 6 of the bill be amended by adding the following subsections:

"Committees

"(5) In each municipality in which a casino operates under this act, the corporation shall establish an independent committee in accordance with the regulations made under this act.

"Members of committee

"(6) Each committee for a municipality shall include a member of the police services board of the municipality.

"Powers of committee

"(7) Each committee shall have the power to monitor the social, economic and law enforcement consequences of the operation of casinos in the municipality and to make recommendations to the corporation and to the minister responsible for the administration of this act."

I'll read this, if I could interject parenthetically, a bit more slowly because I'm not sure it's in front of everybody; this is the handwritten portion:

"Costs

"(8) The corporation shall pay the reasonable costs of each committee if the corporation has approved such costs before the committee incurs such costs."

Subsection (9), and I indicated that this is where there will be some division:

"(9) Any law enforcement costs, as determined by the committee, incurred by a municipality in which a casino is operated under this act shall be borne in full by the province of Ontario."

That concludes the reading of the amendment. Given the discussion that's taken place, I think it would certainly be appropriate to discuss them at the pleasure of each member, but I suspect there'll be difference in voting on subsections (5), (6), (7) and (8) as opposed to subsection (9).

The Chair: We will deal with the Liberal motion, subsections 6(5), (6), (7), (8) and (9). We will open the floor with any opening comments and discussions with regard to this.

Mr McClelland: I'll be very brief, if I may add something for the discussion. I think the purpose for it is fairly self-evident. We heard from a variety of people, obviously people who are opposed, that they have some grave concerns with respect to the social and economic impact. By way of example, and only by way of example, I think many members would agree that perhaps not the best but one of the better-presented briefs was from the Social Planning Council of Niagara Falls, which effectively said that there are a whole lot of questions out there that need to be answered. I take nothing away from other people, I might add, other briefs that were presented that raised a number of questions. There were others, including representatives from the University of Windsor, I believe, who said that it would be wise, in their view, to set up a mechanism whereby there should be a measurement of the impact on the community that hosts the casino.

I want to indicate again, for the record, that I asked and some of my colleagues asked if in fact such a study, by extrapolating data from other jurisdictions, had been undertaken by the government, and the government said it had not.

Quite frankly, I think this is a little bit late. Effectively, the intent of these amendments is to set up a committee, and much of this work should be done prior to launching the project. But in the absence of that report having been done, notwithstanding the fact that the government has said it has plans to undertake such an analysis, I think it's incumbent on the government and indeed everybody associated with this to take a very hard, objective look in terms of the impact on the

community, to measure the costs as well as the benefits.

Although I do not pretend for one minute that a committee will be able to nail down each and every impact, both on individuals and the community at large, I think it will be able to give a very comprehensive review of the impact on the city of Windsor and subsequently for other communities so that the government can respond appropriately to the issues that are raised through that process.

I want to thank the parliamentary assistant for his indulgence, but notwithstanding his acceptance of our amendment that was 16.1, I feel strongly about the new subsection, subsection (9), which I have indicated speaks for itself. In the absence of some resolution that I think Mr Lessard referred to with respect to policing costs, we have to have—God forbid I should use this phrase—a fail-safe mechanism for the city of Windsor to not be hitting its local taxpayer with policing costs that in all probability will result.

I might add, particularly in light of the fact that I think that we unwisely, foolishly defeated the previous amendment with respect to the age, that I think there will be some costs; they may in fact be amplified as a result of that. Time will tell. I suspect that the committee will in fact look at the age as one of the issues.

As I said, I think the subsections are self-explanatory. Some of my colleagues may want to add further to that.

Mr Eves: We support the amendment by Mr McClelland. First and foremost, several witnesses, especially President Ianni of Windsor, indicated that the community requested we have such an advisory committee. I would personally prefer, and in fact I will be introducing several smaller amendments, that there be some obligatory provision in such an amendment that the casino would have to pay for social, economic costs, if any, and law enforcement costs.

We are told by the government: "Oh, don't worry about it. In the deal we're negotiating with the casino, costs will be picked up. They'll be paid for law enforcement etc etc. We'll do something about the social ills of compulsive gambling." But they don't want any of this enshrined in legislation so that they have to do it, and I think it should be, quite frankly.

However, despite the fact that the amendment doesn't go as far as I would like to see it go, I will certainly be very supportive of the amendment that Mr McClelland is putting forward and I will also be supporting his subsection (9) with respect to law enforcement costs, because I think it's important that that be enshrined in legislation, as indeed some of the other social and economic costs be as well.

Mr Duignan: I'm going to move an amendment to the amendment deleting the entire subsection 6(9).

The Acting Chair (Mr Kimble Sutherland): Mr Duignan is going to move an amendment to the amend-

ment, and that is to delete subsection 6(9), so now we'll be discussing the amendment to the amendment.

Mr Duignan: We're very supportive of subsections 6(5), (6), (7) and (8), but we're not supportive of (9) because we feel that the committee could end up with more powers than the Legislative Assembly in relation to spending money on enforcement costs.

As we have said over the course of these hearings, we will provide all the necessary police forces that are proven necessary for the operation of a casino, and the negotiations are still continuing at this point with the city of Windsor and the police services board.

1610

Mr Phillips: We're now dealing with the amendment, so I'll speak against the amendment; therefore, I'm obviously speaking in favour of including the police in the funding area.

I'll go back to the point I made earlier, that so many communities are so intent on getting their own casino, that this is going to be the solution to all their problems, and the province I think is planning to take about \$850 million a year in revenue out of this source. I think one way we will ensure that we are monitoring this thing properly and recognizing the true implications is by ensuring that some of the added costs that will inevitably be put on communities are highlighted and quantified for ourselves and the public.

Consequently, I think that as the casinos take root, subsection 6(9), as my colleague moved, has two advantages for us. One is that it provides a measure of assurance for those communities that are going to embark on casinos in the future and responds to concerns that people would have that they will not be taking on brand-new, significant cost. Secondly, it will ensure all of us that we monitor the incremental activities that are required by our police forces in dealing with the casinos. I don't see any downside to including it and I see two significant upsides to it, so I'll be voting against the amendment designed to eliminate this and voting for, ultimately, subsection 6(9) as moved by my colleague.

Mr Lessard: The problem I see with subsection 6(9) is that it doesn't make any reference to any incremental costs. It just says that if a committee determines it should be the case that a municipality's law enforcement costs should be covered by the province, then it can call on the province to pay for those costs, whatever they might be. I understand the reason for that amendment, but I don't think it does what's being said. It's not covering increased costs. It really exposes the province to a huge bill.

Mr McClelland: You're absolutely right. Mr Lessard raises a good point. Let me say that I apologize. It was just sloppy transcribing from 16. When I read it into the record it should say, "Any law enforcement

costs, as determined by the committee, incurred by a municipality as a result of the operation of a casino in which a casino is operated." It's redundant, but obviously what I was trying to do was piece together part of an amendment that is, you'll see, subsequently typed up, and I apologize for that. But you're quite right, and I thank you for that. That in fact clearly was the intent, and it should relate back to costs associated and resultant strictly from the operation of the casino as determined by the committee. I want to thank you, Mr Lessard, and others who pointed that out.

The Chair: Shall the amendment to the amendment carry? All those in favour?

Mr Eves: What are they voting on?

The Chair: The amendment to the amendment.

All those opposed? You can't vote, Bill.

Mr Eves: I think Bill is replacing Mr North. I think he has a document here that says he's his sub.

Mr Sutherland: Does that mean he's coming to our side? Is that what he said?

Mr McClelland: If you want him.

Mr Eves: Have we got a deal for you.

The Chair: I guess it means Mr North went somewhere else. Mr McClelland has asked for a recorded vote.

Mr McClelland: Yes, please, on the amendment to the amendment.

Ayes

Duignan, Lessard, Martin, Mathysen, Sutherland.

Nays

Carr, Eves, Kwinter, McClelland, Phillips.

The Chair: The amendment to the amendment is lost.

We continue with the section 6 motion which includes (5), (6), (7) and (8). Any discussion?

Mr Sutherland: I'd like to move a 10-minute recess, please.

Mr McClelland: What is the intent of the Chair with respect to adjournment this evening?

The Chair: We were planning on 5 o'clock.

The committee recessed from 1615 to 1634.

The Chair: Order. We're dealing with a Liberal motion section 6, including (5), (6), (7), (8) and (9). Shall the motion carry? All those in favour?

Mr McClelland: Recorded vote, Mr Chair.

Ayes

Carr, Eves, Kwinter, McClelland, Phillips.

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: The motion is lost.

Shall section 6, as amended, carry?

Mr Sutherland: Mr Chair, are there any further amendments to section 6?

The Chair: Not as far as I know, Mr Sutherland.

Mr Sutherland: I'm sorry. I had two more that were circulated that made reference to section 6.

Clerk of the Committee: Those were the government's amendments, and it's not going to move those.

Mr Duignan: I can move the government motion, subsection 6(5).

I move that section 6 of the bill be amended by adding the following subsection:

"Advisory committees

"(5) The corporation shall establish a community advisory committee in each municipality in which the corporation provides for the operation of a casino."

The Chair: I apologize. There obviously are other amendments to section 6. An explanation, Mr Duignan?

Mr Duignan: I think we've gone through the various explanations on the Liberal motion.

Mr McClelland: I guess, simply put, I find it unusual that you're setting up an advisory committee when you voted against an amendment that sets up an advisory committee, that sets out the purpose of it and indicates the rationale for it; not in detail, but sets some guidelines and a framework under which that committee operates.

What you've done here in subsection (5) as amended now is you've set up a community advisory committee. It doesn't say why. It doesn't say what it does. It doesn't delineate the terms of reference in any way, shape or form. It doesn't cover the costs. It doesn't say how it's going to be set up, what kind of representation; it does not have inclusion of law enforcement representation, there's no necessary inclusion of municipal representation, and so on. It's just quite frankly absurd that you have a situation where you set up a committee after having just defeated an amendment that sets up a committee and articulates the purpose of the committee. It's totally absurd and quite frankly is indicative of much the way this legislation has evolved from day one.

Mr Eves: I share Mr McClelland's frustration. I think that he put forward a very decent amendment that was indeed accepted by the government for the most part. They didn't happen to like subsection (9), which required the government to pay any increased law enforcement costs as a result of the operation of a casino. Now we find the government voting against Mr McClelland's amendment and yet introducing an amendment of its own that virtually does the same thing in a much more general way, establishing a community advisory committee.

On a point of order and perhaps clarification for tomorrow: I don't think it will affect the rest of the committee's deliberations today, now that Mr Phillips

has left the committee for the day, but I noted that the Chair indeed voted against the amendment to the amendment on Mr McClelland's amendment to section 6, specifically with respect to subsection (9). I didn't really know whether the Chair did that because the Chair was upholding the status quo, ie, not changing the legislation, or whether the Chair just decided on this particular item the Chair wanted to vote in that appropriate fashion.

I understand that the standing orders do not make any requirements as to how the Chair should vote, but I wondered what advice the clerk of the committee or the Chair could give us, if there are any further tie votes, especially with respect to a future government amendment, that would require the Chair to vote in a tie vote, about whether the Chair would be upholding the status quo or whether the Chair will be voting on each issue as the Chair deems fit.

The Chair: Let the Chair deal with the two things you've raised, Mr Eves. Let me say very directly that although the words I said were clear with regard to the Liberal motion, subsection 6(9), what indeed I meant when I said it was lost was that it would be deleted from the Liberal motion. Now, unfortunately, what I said has a certain and specific meaning in the committee and was recorded as so. That was not the intention of what I said. It is regretful that happened, but it did. We immediately went into a recess and I know there was a flurry of activity around here trying to deal with my faux pas, which has caused some consternation from the government members.

1640

One could perceive that I voted that way because of maintaining status quo, but that indeed was not the case. It was a statement I made that was made erroneously and, however that may be dealt with, clearly it was deemed to have been a certain and specific thing that I said, and that was that the amendment was lost. It's not what I meant. What I meant was that the amendment was, in my mind, to be deleted from the motion. Unfortunately, that's not what I said. Certainly, if we had unanimous consent to revisit that motion, we could deal with it in the way that I meant, but I don't know if we in fact have that unanimous consent from the committee members.

In order to be consistent, and the Chair certainly would like to be consistent, and in order to be non-partisan, and the Chair certainly would like to be that, it would be expected, of course, that the Chair would vote to maintain the status quo of the bill. However, if the members of the committee should agree by majority that amendments from whichever caucus presented are acceptable and therefore the onus does not become the onus of the Chair to cast the deciding vote, then that does not become a problem for the Chair, and I think that's clear.

I just want to say again that it was an error in a word, indeed, that caused us to have that recess and caused the whole motion to be defeated, Mr Eves. That may not seem to be appropriate, but certainly if in the interest of presenting the Liberal motion in its much more detailed fashion with regard to committees, you want to revisit that, it will be at the unanimous consent of the committee; otherwise, I guess it will be brought up at committee of the whole.

Mr Duignan: I certainly would be willing to withdraw the motion I just moved if we had unanimous consent to go back and deal with the Liberal motion dealing with sections 6 through 8.

Mr Kwinter: Mr Chairman, is it my understanding that the parliamentary assistant is prepared to withdraw his motion, which is subsection 6(5), the government motion, and that as long as subsection (9) of section 6 is deleted and there is unanimous consent, there is agreement that the Liberal motion, as amended, with the deletion of subsection (9), would get the support of people? Is that my understanding?

Mr Duignan: That's correct, yes.

Mr Kwinter: Is there unanimous support?

Mr Duignan: Agreed.

Mr McClelland: So what do we do? Go through the motions again?

Mr Kwinter: I move that section 6, subsections (5), (6), (7) and (8), be approved.

The Chair: That's agreed; unanimously, apparently. The Chair wants to thank all the committee members for taking that problem into consideration. Let me tell you, the Chair will be much more careful in the words that he chooses.

In order to make this official, we want clarification for the record. Mr Wood, you have a comment?

Mr Michael Wood: Yes. I just would like to recommend that the committee clarify the wording of subsection (8) of the motion, because on the copy that was distributed, it read with the word "them" twice in the second line of subsection (8), but the version as read by Mr McClelland said "such costs."

Mr McClelland: It seems to me that "such costs" is more specific. It's clearer. I'm in the hands of counsel. You are, if I can use the word, the expert in terms of language. It seems to me "such costs" is more definitive and appropriate, but I leave that in your hands and would solicit your comment on that, sir.

Mr Michael Wood: My own recommendation would be to leave it as I drafted, with "them," because it is shorter. I think it is really clear as to what is meant by "them." "Such" is a word that we try to avoid in legislation if possible. It can be very easily overworked.

Mr McClelland: Thank you. I accept that advice.

Mr Kwinter: Mr Chairman, with all due respect, I

would suggest that "such" and "them" are in exactly the same category. If you think that "such" is a problem, I think that "them" is a problem, and I would like to see something a little more definitive.

Mr Eves: Could you simply reiterate the words: "the corporation has approved the reasonable costs before the committee incurs the reasonable costs," or "the costs"?

Mr Michael Wood: There are several alternatives which I think all say the same thing.

Mr Eves: Well, "the costs" would be sufficient.

Mr Michael Wood: "The costs" would be acceptable; "them" and "such costs" all say the same thing.

Mr McClelland: If we have some consensus that the language reading "the costs" is more acceptable to all concerned, I would be happy to move an amendment to the language such that it will result in the amendment reading, "The corporation shall pay the reasonable costs of each committee if the corporation has approved the costs before the committee incurs the costs."

Mr Eves: We're sinking faster than John Olerud.

The Chair: Now that it's been clarified, we have to vote on the Liberal motion, section 6, subsections (5), (6), (7) and (8), with the new language. All those in favour? Opposed? None. It's carried unanimously.

Shall section 6, as amended, carry? Carried.

We are now dealing with section 7. Any discussion? All those in favour of section 7? Carried.

Section 8 of the bill: Any discussion?

1650

Mr Duignan: This is standard provisions bylaws.

The Chair: All in favour of section 8? Carried.

Section 9 of the bill.

Mr McClelland: I have a question; I'm not sure what other questions might be forthcoming. I'm wondering if project counsel or research staff might indicate the purpose, rationale, for section 9(1) and, for clarification, outline sections 132 and 136 of the Business Corporations Act—effectively, if you could explain them, if I could ask for some background information indicating why the Corporations Act and the Corporations Information Act don't apply, if you could help me. I profess that I do not have specific knowledge of the rationale behind that.

Ms Korey: In order to assist you, Mr McClelland, the Corporations and the Corporations Information Act are acts of general application where anyone who starts a corporation, for example, has to have certain filings in the business registry office type of thing. They seldom apply to statutory corporations, mainly because things are much more public in statutory corporations anyhow so you don't have to have a mechanism whereby the public can access these things. That's subsection 9(1).

Subsection (2): Sections 132 and 136 of the Business Corporations Act deal with conflict of interest and also

what actions directors can be indemnified for and what actions they can't be indemnified for in Ontario. We imported them from the Business Corporations Act. We felt that directors of the corporation should be held to the same standards as other directors in this province.

Mr McClelland: Thank you. I think there are some other questions also.

Mr Kwinter: I'm not entirely satisfied with the explanation on subsection 9(1), that the Corporations Act and the Corporations Information Act do not apply to the corporation. If in effect all of the provisions of the Corporations Act and the Corporations Information Act will be covered, just by virtue of the fact that this is effectively a crown corporation, I don't see where the problem is, other than the nuisance of another filing.

The implication I get when I look at this, and I have to admit that I was not familiar with these particular acts and how they applied, was that there is a certain exemption by this corporation, that it applies to everybody else but it's not going to apply to this corporation, when in fact the explanation of the legislative counsel is that it does apply, the information is available, but because it's already available, "We're not going to make it available under these two particular acts." Could I have some clarification on that?

Ms Korey: I think the Corporations Act actually does more than just do filings, but in statutory corporations that are established by specific legislation, acts of general application do not apply, not just in the terms of filing. I use the terms of filing as an example of the type of thing that most people are familiar with with respect to those kinds of acts. It was thought that everything that needs to be set out with respect to a specific act is set out in the statute. You can go to that statute and it is a code of behaviour for that corporation, if you like. To import other acts of general application that have nothing to do with this act I think has been the tendency in statutory corporations—certainly in the statutes I've seen.

The Chair: Shall section 9 carry? Carried.

Shall section 10 of the bill carry? Carried.

Shall section 11 carry?

Mr Kwinter: This is something that's just come up and it relates to what we were talking about in subsection 9(2). Under section 11, it states, "No action or other proceeding for damages may be instituted against any member of the corporation or person appointed to the service of the corporation for any act done in good faith in the execution or intended execution of the person's duty or for any alleged neglect or default in the execution in good faith of the person's duty."

This goes to the heart of very much what is a major issue in the roles of directors of corporations, in that in the past directors have always tried to shield themselves from any liability for their actions. In recent times, this

was found to be unsatisfactory and the role of directors saying, "I just went to meetings, I acted in good faith, I had no idea what the officers were doing, and I have no responsibility," there is now a very definite responsibility of directors for the errors and omissions of their corporations. This provides that as long as they're dealing in good faith, they are exempt from any repercussions when, in fact, regardless of whether they are dealing in good faith, if they are dealing incompetently, notwithstanding that it's in good faith, they are liable.

To suggest that the officers, directors and employees of this particular corporation can be excluded from that particular responsibility that accrues to every director of every corporation in Ontario I think is unacceptable.

There has to be an onus on the people involved that goes beyond good faith. It has to deal with responsibility and competence, and taking on responsibility. That is provided for under the Business Corporations Act and again by excluding it, it takes away a common protection that every director is obliged to in Ontario.

You should also know that this has created some problems because there are some directors who are not prepared to take on directorships unless they get directors' insurance or they get some indemnification from their possible liability for decisions that they have taken. It has nothing to do with whether they've done them in good faith; it has to do with whether they've done them competently or in the best interests of the shareholders, taxpayers or whoever they represent.

Mr Duignan: Very briefly, as I understand it, this is a usual clause. They are acting public servants who act in good faith and assume a liability for their actions.

Ms Korey: I realize that in private corporations this has been a hot issue recently, the issue of directors' liability. In this particular case, under 6(1) you will recall that the corporation shall comply with any directions given to it by cabinet. The board of directors is the directing mind and will of the corporation and it has to comply with the directions given to it by cabinet. This is found in many statutes, the no-personal-liability, the intention being that in fact it's the crown that gets sued for torts and not the person acting in good faith.

I would say they have to be done in good faith. It's an act done in good faith, and in terms of environmental liability, for example, where this has really come up in the private sector, it seems to me that this wouldn't be a problem for this particular corporation.

1700

Mr Kwinter: In subsection 6(1), I think it was—

Ms Korey: "Comply with any directions."

Mr Kwinter: Yes. "The corporation shall comply with any directions given to it by the Lieutenant Governor in Council." That again presupposes that the corporation is going to get approval for everything that it does from the Lieutenant Governor in Council, which

is not the case. All subsection 6(1) says is that if the Lieutenant Governor in Council gives you a direction, you are obligated to follow that direction. It doesn't work the other way. The corporation will have the ability to do lots of things without getting approval to do it. The only thing that 6(1) says is that if the Lieutenant Governor in Council directs you to do something, you must do it.

The other comment that I might make is that legislative counsel says that in statutory corporations it's quite common for there to be no liability, and I would suggest that is because in most cases there's a history of just repeating it. But she also has admitted that a hot item today is directors' liability. It would seem to me, at the very least, that if you want to protect the directors of this corporation but without relieving them of the obligation that any other director has to be responsible and to be competent—and when I talk about competent, there's a legal definition for it: What would a normal person expect the level of competency to be?

If you wanted to in some way insulate them, then I would suggest, in the same way that a director, if he has any kind of business acumen, would not serve on any board of directors unless he's been assured that there's some indemnification to protect him, that the government take on the responsibility and state that the government shall—as long as the employee was dealing in good faith and if they want to take the risk of whether he's competent or not—indemnify anybody who has a claim against that board. Otherwise, by statute, you are removing from general citizens an obligation that everybody has, and that is to get redress if they think that this corporation has not acted properly.

Mr Duignan: I just point out that this particular section does not just deal with the directors of the corporation but all employees of the corporation; not just the directors.

Mr Kwinter: Directors and employees?

Mr Duignan: Yes, and employees.

Mr Kwinter: What you're really saying by this is that you are, by statute, removing the rights of people to get redress against the actions of the directors or employees if their only defence is that they acted in good faith.

Mr Duignan: Jerry, did you want to elaborate?

Mr Jerry Cooper: Again, Jerry Cooper, legal branch at MCCR.

This does not remove anyone's right of redress. It makes the crown liable for any action taken by a member of the board of the corporation or for any employee of the corporation whom someone has a grievance with and wants to sue. This type of provision makes the crown liable rather than the individuals.

I can say, from experience in MCCR, in those statutes where we don't have this type of provision,

litigators take a very scattergun approach and they sue and name everybody in the lawsuits. It causes a great deal of added stress to those individuals named just because they happened to see a report, file a report, do whatever.

This just says: "Sue the crown. We'll sort things out from there." The crown is liable for the actions of the members of the board and the employees, and that's the purpose of subsection (2), to impose crown liability.

Mr Kwinter: There is no question in my mind that in any lawsuit, any litigator is going to go after everybody and go after the guy who's got the deepest pockets to make sure that they are included. My wife used to go hysterical when I was the minister and someone would turn up at my door with a lawsuit, where they were suing me as the minister for something.

Mr Jerry Cooper: I've accepted statements naming you.

Mr Kwinter: I know. There would be a bailiff at the door who would present a document, and she'd say, "Oh my God, they're suing you for millions of dollars," whatever it is. I'd say: "Forget it. Don't worry about it. I'm just being sued because I'm the minister, but in fact they're going after the crown." I had not the slightest discomfort but my wife was never convinced. She was convinced that I was going down the tubes.

The thing is that a sophisticated litigator will know that, but my concern is that someone who has a grievance with an employee or a director of this particular corporation, who is trying to act as his own lawyer—which means he's got a fool for a client—will go out and see this and feel that he is stopped from taking any action because of the provisions of this act. It would seem to me that there should be a clarification that there is liability. It may be by the crown, and I suggested that, that as long as it is understood that if you want to indemnify employees and directors to make sure—that's almost a given that that is the case, because anyone who is going to sue is going to eventually wind up suing the crown. That is my concern, particularly in light of the attention that has been given to directors' liability.

Mr Jerry Cooper: I appreciate that, but I think subsection (2) does exactly what you said where it says, "Subsection (1) does not relieve the crown of liability in respect of a tort committed by a person mentioned in subsection (1)." Therefore, you go to the crown and the crown deals with the issue and the responsibility for the competence and the actions of the people on the commission and its employees rests with the crown.

Mr McClelland: I want to try and link two things. You indicate that it's standard fare, if you will.

Mr Jerry Cooper: It's common. It's not in every statute. I speak from experience where it isn't in the statute.

Mr McClelland: Inasmuch as it's common, to use

your language, sir, would you if possible offer comment with respect to the provisions of clause 4(d) wherein it provides the corporation the object of entering into reasonably related businesses. I'm not going on a fishing trip, I'm just wondering if there's something there that would set this statute apart from the common exemption inasmuch as the objects of the corporation are perhaps broader and more inclusive in terms of business enterprise in light of clause 4(d). I'm wondering if there's any relevance at all to the commonality, if I can use that word. Is it common for crown corporations to have a provision such as 4(d), and to the extent that that's not particularly unusual, is there the usual exemption as set out in section 11?

Mr Jerry Cooper: My involvement with the casino project is peripheral, although I did participate in the drafting of the legislation with counsel from the casino project. Clause 4(d) would be specific to this bill, but frequently, I think, when you're establishing agencies and boards and looking at the duties, their powers and the potential business, we frame the powers in a fairly broad sense. For example, in the Liquor Control Board of Ontario, which Mr Kwinter mentioned before, the powers are fairly broad and they're framed that way.

I don't necessarily see the relationship between 4(d) and 11. The main purpose of 11 is to discourage what I call the scattergun approach and having specific individuals named in lawsuits.

I can say that our inspectors, investigators and technicians, when they're named, they're not as sanguine about it as Mr Kwinter. They're really quite unnerved by the experience. Even though we say, "We'll look after it, your name will be removed," and their names are always removed down the line, for a period of time they see their name being sued for \$25 million because an elevator went down or something. That's what that's for.

1710

Mr Eves: Okay, but I think the point that Mr McClelland is making is that we had quite a lengthy discussion—maybe you were here, maybe you weren't, I can't recall—on 4(d) and what businesses the corporation may or may not enter into.

For example, I think Mr Kwinter suggested when we talked about that section that the corporation may enter into a business or create a business to manufacture slot machines; that was one that was suggested by somebody anyway. What happens if the corporation did that? They set up this business, and that business is in contravention of some environmental law, polluting of some sort. What you're saying is that an employee or director of this corporation, because it's a crown corporation, those individual directors would not be responsible. If it was a private company manufacturing slot machines, they would be responsible.

Mr Jerry Cooper: No, sir. You're talking some-

thing like environmental legislation or anything that involves a provincial offence or a criminal offence. We're talking civil liability here.

Mr Eves: Say a lawsuit then. If I was a member of the board of directors of ABC Co, a private company producing slot machines, and I'm polluting a watercourse or river or stream, whatever, and somebody sues me downstream, I'm personally liable if I'm a director of a private company doing that, right, or could be?

Mr Jerry Cooper: If you were in the position of suing someone, who would you rather have as a defendant, an individual or the crown?

Mr Eves: It depends who's responsible, and as Mr Kwinter said, who has deep pockets. You'd probably sue everybody.

Mr Jerry Cooper: You'd sue the corporation of the crown, likely.

Mr Eves: Yes, but in a private company you'd sue everybody, would you not? In a private company, if you were chairman of the board, you'd be personally responsible, in all probability.

Mr Jerry Cooper: But in this case, we do have—

Mr Eves: In this case you would not be.

Mr Jerry Cooper: We just say, "Sue the crown."

Mr Eves: Yes, but the point I'm trying to make is—

Mr Jerry Cooper: I hear what you're saying.

Mr Eves: —there are two standards here. If you're on the board of directors of a crown corporation, you're not personally responsible if you're polluting a watercourse, but if you're on the board of directors of a private company polluting a watercourse, you're personally responsible.

Mr Jerry Cooper: We distinguish between civil and criminal liability.

Mr Eves: I understand that, but I'm talking about a civil suit now. So there are two standards: If you're in a crown corporation, you can't be sued civilly for something like that if you're on the board, but if you're in a private corporation, you can be. That's what we're talking about, isn't it?

Ms Korey: Just to add to Jerry's comment, though, in a private corporation, one of the reasons that you're going to sue every Tom, Dick and Harry is that you don't know where you're going to get your money. That corporation may be a shell corporation with no money whatsoever and the chairman may be a rich guy who didn't happen to put his house in his wife's name. So in that case, you do sue everybody.

In this case, you are offering redress that is far beyond redress that a person has in a private corporation. You're offering redress from the crown. If in fact it's found by a court that the person was liable, then the crown is liable.

Mr Sutherland: On a point of order, Mr Chair: I

don't want to end this debate. Could I just ask what time the committee is sitting to or whether it was formally set out in the motion or not?

The Chair: We hadn't established a time officially, although a number of members thought we were going to adjourn at 5. We can adjourn at any time.

Mr Kwinter: We can continue this tomorrow, and the next day.

Mr Duignan: On that point, Mr Chair, if I can, considering that yesterday we lost about three hours of clause-by-clause, and we've still got about 30 sections to get through in this bill, I was wondering, if possible, if we could sit an hour earlier in the morning and cut lunchtime down by one hour tomorrow as well, with a hope of getting through the remaining 30 sections or something of this bill.

Clerk of the Committee: That means we start at 9?

Mr Duignan: Starting at 9.

The Chair: It's something we can certainly discuss for a minute here. We also have been legislated to sit on Friday if that's necessary, if we choose to.

Mr McClelland: I'd be happy to accommodate in

any way. I'd just indicate that I cannot be here tomorrow at 9. I'll be hard pressed to make it by 10, but I'll be as flexible as necessary and accommodate in any way I can over lunch.

Mr Eves: I agree. If you want to shorten lunch, that would be fine, and then we'll see where we're at by 5 or 6 tomorrow. If we have to sit later, we'll sit later. If we have to sit Friday, we'll sit Friday.

The Chair: Okay. We'll see how the day goes. I want to let everyone know that we do have legislative approval to sit on Friday, should that be necessary.

Mr Eves: Lucky us.

Mr McClelland: I guess we could start Friday at 8 o'clock so we can get out of here early.

The Chair: How long do we want for lunch tomorrow? Just one hour?

Mr Duignan: One hour.

The Chair: Is that fine? Okay. Starting at 10 and recessing at noon till 1? Okay. This committee is adjourned until 10 am tomorrow morning.

The committee adjourned at 1716.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Prince Edward-Lennox-Hastings-Sud ND)

***Acting Chair / Président suppléant:** Sutherland, Kimble (Oxford ND)

Vice-Chair / Vice-Président: Wiseman, Jim (Durham West/-Ouest ND)

Caplan, Elinor (Oriole L)

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***Mathysen, Irene** (Middlesex ND)

North, Peter (Elgin ND)

***Phillips, Gerry** (Scarborough-Agincourt L)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Duignan, Noel (Halton North/-Nord ND) for Mr Wiseman

Eves, Ernie L. (Parry Sound PC) for Mr Cousens

Martin, Tony (Sault Ste Marie ND) for Mr Jamison

McClelland, Carman (Brampton North/-Nord L) for Mrs Caplan

Also taking part / Autres participants et participantes:

Ministry of Consumer and Commercial Relations:

Korey, Audrey, counsel, casino project

Cooper, Jerry, director, legal services

Mundy, Jim, project team officer, casino project

Clerk / Greffière: Grannum, Tonia

Staff / Personnel:

Murray, Paul, research officer, Legislative Research Service

Wood, Michael, legislative counsel

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Official Report of Debates (Hansard)

Thursday 9 September 1993

Journal des débats (Hansard)

Jeudi 2 septembre 1993

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Ontario Casino Corporation Act, 1993

Loi de 1993 sur la Société
des casinos de l'Ontario



Chair: Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 9 September 1993

The committee met at 1010 in the Huron Room, Macdonald Block, Toronto.

ONTARIO CASINO CORPORATION ACT, 1993

LOI DE 1993 SUR LA SOCIÉTÉ
DES CASINOS DE L'ONTARIO

Consideration of Bill 8, An Act to provide for the control of casinos through the establishment of the Ontario Casino Corporation and to provide for certain other matters related to casinos / Loi prévoyant la réglementation des casinos par la création de la Société des casinos de l'Ontario et traitant de certaines autres questions relatives aux casinos.

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. We continue today with clause-by-clause of Bill 8. We left off yesterday at section 11 of Bill 8.

Mr Noel Duignan (Halton North): Mr Chair, while we're waiting to settle down, Mr Carr asked about polling data yesterday. As required after six months, we have tabled the polls. The last one was done in February 1993, basically around the Windsor area; at that point, it showed 60% in favour of casinos and 40% against. But those polling data have been tabled as required.

Mr Gary Carr (Oakville South): I'm sorry, tabled where?

Mr Duignan: With the Legislature.

Mr Carr: Was it requested by one of the parties, do you know?

Mr Duignan: No, the polling data are requested to be filed after every six months. You have to file it once you reach the six-month point.

Mr Carr: Just to clarify, the last poll was February 1993, and it showed that in the Windsor area—was that Windsor proper or southwest Ontario, do you know?

Mr Duignan: Primarily the Windsor area, I understand Windsor and Essex county.

Mr Carr: And it was 60% in favour and 40% opposed. I take it, because there wasn't any Ontario data given, that there wasn't a province-wide poll.

Mr Duignan: As far as I'm aware, there's no province-wide polling.

Mr Carr: Just one last quick question. Do you know if any other polling is going to be done province-wide, with this specific question asked about the casinos?

Mr Duignan: I will endeavour to find that out.

The Chair: Thank you. We will continue now with any debate or discussion on section 11 of Bill 8 where we left off yesterday when we adjourned. Is there any

discussion on section 11?

Mr Carr: I was going through here trying to get the update. I don't see any amendments from anybody.

The Chair: No, there are no amendments to section 11; it's as it reads in the bill.

If there is no debate on section 11, shall section 11 carry? Carried.

Moving on to section 12 of the bill, Mr Duignan, do you have any comments on section 12?

Mr Duignan: No comments.

The Chair: Any discussion or debate on section 12 of the bill? Seeing none, shall section 12 of the bill carry? Carried.

We have some amendments to section 13 of the bill. The first amendment is a PC motion, paragraph 13(1)1.3.

Mr Carr: I move that subsection 13(1) of the bill be amended by adding the following paragraph:

"1.3 Payments that the regulations made under this act require the corporation to make to the consolidated revenue fund for the purpose of establishing and funding gambling addiction treatment centres."

Just an explanation: Obviously, it's pretty self-explanatory. The feeling is, and I think the government has given through the parliamentary assistant assurances, that funding will be made available, but this would put it into the legislation and ensure that gambling addiction treatment centres are funded to deal with the problems that may arise as a result of casinos coming in.

It's part of what some of the discussion was yesterday. The public, I think, and certainly we in the opposition, take the parliamentary assistant's statements and appreciate that the government is committed to establishing some funds for this area, but with the economic conditions we're facing now, we would like to make sure it's entrenched in the legislation. This amendment would do that and protect the people who may be affected as a result of gambling addictions and some of the other problems that will arise.

The Chair: Further discussion or debate on this amendment?

Mr Duignan: Just briefly, as we've gone over this area quite a number of times: This government is committed to dealing with the whole question of problem gambling. It's not just with casinos alone; it has existed in this province for many, many years. Problem gambling also exists in the racing situation and the lotteries and within the bingo situation. This government

is committed to dealing with this problem at the same time as we're dealing with the casino situation, and very shortly I understand there's a package of recommendations dealing with this problem going to cabinet.

Why should the casino complex itself be paying for the cost of this? It should be coming from all forms of gambling. But I have made the commitment that we will be dealing with this issue. Any funds necessary to deal with this problem should in fact be coming from the consolidated revenue fund, and that's where the money will be coming from.

Mr Carman McClelland (Brampton North): I'll make reference back to our comments in what we proposed as a preamble, which was subsequently, on the advice of counsel, moved into the purpose section of the bill. You'll recall that the portion of that purpose section of the bill that we had proposed was rejected by the government; specifically stated, what we had numbered as subsection 3(2), a payment to the treatment of pathological gamblers, credit counselling, the cost of policing and so forth. I think our purpose was fairly consistent, if not identical, with the intent of the amendment of our friends in the Conservative caucus. Obviously, inasmuch as we have the same intent there, I'd be pleased to support, and we'll be doing so, the PC amendment.

Mr Carr: I just had one question. The parliamentary assistant said that something is going before cabinet. Do you have any date when an announcement will be made regarding any programs the government might be doing? Are we looking at when the Legislature returns? As it hasn't been approved, you obviously don't know what's going to come out, but maybe you could give us a better idea of what your recommendations are in terms of how much and which ministry is going to minister it. Maybe you could just give us some idea of what you'd like to see. As I suspect from your comments, this motion will probably be defeated, and I'd like to get some sense of what the government intends to do. If it right now isn't cabinet's decision, I'd like to have the parliamentary assistant's vision of what he'd like to see.

Mr Duignan: Mr Carr is very well aware of the fact that we can't disclose what, if any, advice we give the cabinet around that whole area, but if you're talking about my personal preference, you're talking about the whole area of education, prevention and treatment. That's what I would like to see happen and what I would suspect may happen.

Mr Carr: I guess the critical thing is the amount. Let's not talk about what you're going to put before cabinet. What do you, as the parliamentary assistant, think would be needed in terms of dollars? What are we talking: a couple hundred thousand, a couple million? What do you think would be sufficient to deal with the problem?

Mr Duignan: The amount necessary to do the job.

1020

Mr Carr: How about putting figures to that? I guess you obviously don't have a figure.

Mr Duignan: The amount necessary to do the job, around the whole area of education, treatment and prevention.

Mr Carr: How about ranges? Over a million? Under a million? Can we get into that game? Okay, I appreciate you don't want to get involved in that. We know the casino is going ahead. It would be logical to assume that would come before our casino in Windsor opens up, and I encourage the government to do that. I'm sure they want to get it done as quickly as possible too. I know the constraints that happen going before cabinet, but I think politically it would be better for the people in this province to know what's going to happen before the first casino comes due. I hope the members would support this motion, because I think it's a good one and it, for want of a better word, forces the government to do what it said it will do. Failing that, I hope you will take it on your own to do it through other means.

The Chair: Further discussion on the motion? Seeing none, shall—

Mr Carr: Recorded vote.

The Chair: A recorded vote has been requested. All those in favour of the motion?

Ayes

Carr, Kwinter, McClelland, Phillips (Scarborough-Agincourt).

The Chair: All those opposed?

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: The motion is lost.

That brings us to PC motion, paragraph 13(1)3.1, Mr Carr.

Mr Carr: I move that subsection 13(1) of the bill be amended by adding the following paragraph:

"3.1 The corporation shall make payable to charitable institutions on a rotating basis, as defined in the regulations, payment of revenue received from those games of chance specified in the regulations."

Very briefly, the reason for this is of course the concern of the charitable institutions. I know a lot of the charitable organizations aren't aware of what the impact will be, because I think a lot of them believe the government when it says it will only be Windsor. In my area, a lot of the charitable organizations don't see that as a threat to the various bingos that are held and so on, but I think as we get down the road, when Toronto opens up with three, there's going to be a dramatic impact on the charitable organizations. This would make it such that the government would give some of the money to those organizations that otherwise may find themselves out of business. As we know, a lot of these

groups are doing fine work. So this would put it into the bill, that the government would compensate those groups.

Mr McClelland: I want to make reference back to what became the purpose section of the bill and the portion of that particular amendment that was rejected by the government. We had indicated in that proposal that all costs associated with the operation of the casino would be covered from the revenues generated by the casino. Part and parcel of that, our intent, was clearly to include the impact on charities. You will recall that we heard from social planning councils, a variety of organizations that said that there were some grave concerns with respect to the impact casinos may have on revenues.

The response has been that in Windsor, the lion's share of revenues generated by charities come from bingos, and accordingly there is a feeling that it won't have a dramatic impact, that it may be fairly minimal in terms of percentages of revenues raised for charities.

I can tell you that across the province, and I think we heard that in second reading debate—by way of example, my colleague from St Catharines, Jim Bradley, expressed concerns from minor sports organizations in the Niagara Peninsula that are gravely concerned about the impact of casino gambling on their revenues as they generate them through charities, whether it be tear-off tickets or casinos or whatever they use to raise funds.

We certainly heard from B'nai Brith and other organizations. They put forward a very succinct and cogent argument with respect to the concerns they have. I think of the March of Dimes and the coalition of some 32 charitable organizations that came to me, I believe to the parliamentary assistant and to the minister and asked for an opportunity to speak with representatives of the government and certainly opposition members expressing their concerns.

I think it fair to say that there was no unanimity from those 32 organizations, the coalition of charitable organizations. I forget the name; maybe the parliamentary assistant can help me with the name of the umbrella organization that was pulled together, but I think you know the organization of which I speak. Some 32 organizations said: "We're not really sure. We don't have a consensus in terms of what the impact may be, but suffice it to say, we do have concerns and we want to make sure they're studied. In the event that there is a negative impact, we want to have some kind of assurance, an indication from the government, that it will address the shortfall, should there be any, that can be shown or demonstrated to be a direct result of the casinos."

The government has said—and again, I say this with greatest respect to my friend the parliamentary assistant, an honourable man whose word I take at face value and have absolute confidence in his integrity. The fact of the

matter is, though, that governments change and their policies change, and regardless of who we are as individuals, there's a collective process in government; whether we sit at the executive council table or not, whether it be in our caucus or around cabinet table, there's a dynamic that takes place, and generally, at the end of the day, whatever the leader of the government says goes. That's just the reality, I think, of government presently.

Mr Kimble Sutherland (Oxford): Is that how you operate?

Mr McClelland: To my friend Mr Sutherland who interjects, "Is that how we operate?" I'm saying that's the way the government apparently currently operates. A decision is made in the southeast corner and marching orders are given, and decisions are made in accordance with the wishes emanating from the southeast corner and the minions in the Premier's office.

Some of your colleagues would certainly attest to that. Some of them you've heard before this committee, Mr Sutherland. I think of the member for Welland-Thorold and your former caucus colleague from Haliburton, to name but two. I could name others, but I consider them my friends and I don't want to embarrass them, who have spoken with me and said they were really quite gravely concerned about the way this thing has evolved.

Having said that, the point is that notwithstanding the parliamentary assistant's best intentions and best wishes, he has very carefully, in terms of protecting his own integrity, said that's the policy of the day. I want to note and highlight the fact that the parliamentary assistant frequently says, "Today this is our policy." I don't think he's trying to be cute. I think he's just trying to be honest and, as I said, cover his integrity, if I can use that. I think that's parliamentary language, Mr Johnson. I'm not sure exactly what other people might substitute, but let's be candid about it. That's what the parliamentary assistant is trying to do.

The reality is that there is no confidence—I'm just being very candid—in the charitable organizations that you're going to fulfil what I think is a well-intended commitment. The suggestion we had in terms of the purposes of the bill I think would have spoken to it directly, embodied it in the legislation, and certainly the amendment as put forward by the third party very specifically speaks to the issue of charitable institutions and tries to provide a mechanism that would, with the flexibility of regulation, provide a scheme of payment to those organizations.

As I said, the concerns are different depending on where you go in the province. Again, I use by way of example the concerns emphasized by Mr Bradley from the Niagara region. I think other members on all sides of the House will have heard from organizations and representatives in their particular communities.

I think this proposal by the Conservative caucus speaks very directly and provides the government with ample opportunity for flexibility: It provides a regulatory scheme to do what the government says; it does not embody it in the legislation, does not tie their hands. It says in effect, "We're going to put some substance to our rhetoric." That's what the PC caucus is asking the government to do: Show us your good faith and embody in the legislation what you say you're going to do. At the same time, it gives to the government, I say to my friends in the government caucus, it gives you as government, in your minister, in your cabinet colleagues, total flexibility in terms of the implementation of the intent. The section says, "Set up a regulatory scheme," and you know how regulations are promulgated. You do it in cabinet, you do it on the advice of counsel and staff out of the ministry.

1030

I think it's a win-win situation. It's a win for the government by that flexibility, it's a win for the charities, and I think it's a win, in a sense, for the people of this province who said, "Yes, this government is prepared to stand by what they've said they're going to do."

I would urge you to strongly reconsider. I think your sentiment has been, I say to the parliamentary assistant, that you're not going to support this. Reconsider it in terms of the fact, if you would, sir, that it provides you with tremendous flexibility on how you would implement it, very well-thought-out by the third party, giving you that win-win situation.

Mr Ernie L. Eves (Parry Sound): I think Mr McClelland has outlined very well what the substance of the amendment is. I note that when the B'nai Brith Foundation was appearing before us, as well as other charitable organizations, a couple of weeks ago, they are very concerned about what their future is in the light of an Ontario-owned casino, or casinos, as the case may be in the future, in the province of Ontario.

As has already been stated, this provides a great deal of flexibility to the government to make sure those charitable organizations that have relied upon charitable casinos from time to time are given some measure of protection. I think, as Mr McClelland and Mr Carr have also stated, this would also allow you to recognize charitable organizations that have been already in the field for a great number of years. As a matter of fact, I was quite surprised about how long the B'nai Brith Foundation has been in the field of charitable fundraising and charitable casinos.

I would ask the government to take a very serious look at this amendment. If this amendment in particular, the way it's drafted, isn't exactly what they would like to see, I would urge them to draft something and improve upon it and come back with something that will protect these charitable groups.

Mr Duignan: First of all, I thank my good friend Carman McClelland for all the kind words he has spoken here this morning about me.

Interjection: You're an honest guy, Noel.

Mr McClelland: For an Irishman, you're particularly honest.

Interjections.

Mr Carr: However.

Mr Duignan: However, as the honourable members know, the government remains committed to maintaining and increasing the profitability of charitable gaming. When we look at where the dollar comes from in relation to charitable gaming, out of every \$100 earned by charities, \$99 comes from bingos, break-open tickets and raffles, so about \$1 comes out of the whole area of charitable casinos. As the bingo association in the Windsor area has very rightly pointed out to us, these people are very loyal to their game and we have made a commitment that there will be no bingos in the casino. They believe that the vast majority of their people will remain loyal to their game and continue to play bingo.

Again, over the course of the last several months, the ministry has introduced a number of new licensing policies which has made charitable gaming even more profitable for charities and they are, I believe, already enjoying increased revenues as a result of those changes.

Again, as I said in Windsor, I believe further that a charitable gaming advisory committee was formed to help regulators to ensure that licensing policies continue to reflect a changing marketplace in the whole area of gaming, and members of that committee include charities, service clubs, commercial operators and municipal authorities. We are continuing to dialogue with all the charitable gaming people to make sure that the policies remain constant with a changing marketplace.

Mr McClelland: I don't want to beat this to death, but I just want to walk through those three points very quickly and ask the parliamentary assistant to consider this. I find it interesting that I'm fighting so rigorously on behalf of a third-party amendment, but I really believe it's a good amendment.

I say to the parliamentary assistant, you're talking about 1% of the money. Let's just suppose in the worst-case scenario that it flips over to 2%. It's not a great deal of money, so your policy, as I hear you state it, is to take care of that, that you want to address the issue. If it's 2%, you're not talking about a whole lot of money; you're talking about a scheme for dealing with it. So it certainly isn't for fear, if what you say is true, of having some dramatic economic impact on the project or on the cash flow associated with the casino.

You say you've changed your licensing policies. It would seem to me that as part and parcel of the 1% issue you raised, the licensing policy, the government

has adopted, at least fundamentally, a policy that says, "We want to ensure the viability of charities." I think any government, regardless of its philosophical disposition, would be hard pressed to say anything but that. It would be ludicrous in terms of the multiplication of dollars invested through charities, through the volunteer network that multiplies the dollars that are invested.

You've recognized that: You say you have a licensing policy that wants to be flexible and provide for charity; you then say you want to enter into a dialogue and ensure. What this amendment does is provide a mechanism for you to implement that dialogue: It provides a regulatory framework; it says in the legislation, "We will set up a regulatory framework." That regulatory framework presumably would be impacted by the dialogue.

Ultimately, it's a decision of government, and at the end of the day, your hands aren't tied. What you're doing is adding a mechanism to actualize the very points you've raised. I think your policy is indicated by the fact that you are taking some initiatives in licensing. As to the 1% issue, even if you double it up, as I said, you're still not talking a whole lot of money, and "dialogue" says you want to work with them. This amendment provides you with a mechanism to effect that dialogue.

From a logical point of view, I don't think it takes anything away from the government, it gives a sense of assurance to the charities, and I think it's consistent. Far be it for me to speak about your government's policies, but I think it's consistent, based on your own statements, with the policy and the intent of your government.

Mr Gerry Phillips (Scarborough-Agincourt): I'll just continue to beat on it a little, although there's obviously no chance it's going to carry because the government's got the vote. But let's face it: The government is heading into the business of competing with the charities and will have all the clout of the government behind it, including legislation, and will hook up with some of the best gambling operators in North America to compete with them. If I were involved in a charitable organization involved in gaming, I'd be darned worried, because here it is: The government's looking for \$850 million a year out of this, and it views it as the big cash cow and will use everything in its power to do it.

I think the proposed amendment is to try to provide some assistance to the charities that are going to be dramatically impacted by this. Make no mistake about it. As I've said many times, this is the gold rush, and the government has bought this thing lock, stock and barrel. I support the amendment as one small assistance to the charities that are going to find the full weight of the big US gambling operations and the government lined up against them, with a huge vested interest in maximizing their profits.

Mr Sutherland: Some of the arguments put forward to support this amendment I have trouble with. Let's remember, when we're talking about the Windsor casino, the marketing effort is for 80% new tourists from the US, people who are not going to the bingos or the charity casinos.

The other point is, if you accept your argument here and take that one step further, we've had many representatives of the horse racing industry who said the charity casinos are eating into their market. So do we have a further amendment whereby some of the moneys from the casinos go to the charities, and then the people making money off the charity casinos put money into the horse racing industry because they're eating into its business? Then where do you go? It doesn't make logical sense to do that. We heard evidence to that effect, that they felt the charity casinos were eating into the horse racing industry market, but you haven't put forward any proposal here.

1040

The charities are doing very well. They're going to continue to do well. The other thing is that all good charities don't rely on one source of income for their fund-raising activities either. But if you accept this amendment, then the next logical thing is that those who are running charity casinos should take some of their profits and hand that over to the horse racing industry because allegedly they're eating into its market.

Mr Monte Kwinter (Wilson Heights): Just by coincidence, I was out to dinner last night and I happened to be sitting beside the president of the CNE. I asked him how the exhibition had gone and he said, "Fine." I said, "How's the casino?" He said: "It's fabulous. It's great. As a matter of fact, have you ever seen it?" I said no, and he's invited me to visit it tomorrow afternoon.

The Chair: Do they give out VIP passes, Mr Kwinter?

Mr Kwinter: As a matter of fact, anyone who wants to join me is more than welcome. But he says it's absolutely spectacular. The building, he said, is really something, and it's something you should see.

But he did say something that I think is interesting and absolutely germane to this discussion. He says, "As busy as we are this year, we are not as busy as we were last year." I said, "What do you attribute that to?" He said: "I attribute it to the competition from other charity casinos. Last year we had it virtually to ourselves and this year there's all kinds of these things, and we have definitely felt the impact." What you have is charities sort of detracting from other charities. This is a huge facility, and it has felt the impact.

Again, if you take a look at the article I distributed to you, there is only so much money out there available for gambling. It is not infinite; it's a finite number.

There's only so much money that's there, and what is happening is that the more you dilute the product, the less money each one is going to get, and then it becomes very competitive. That's when you start getting these various incentives and you start getting all of the things. The article talks about the competition that has forced them to give away 95% of the amount wagered. That is going to be another very serious deterrent to what we are contemplating, because the amount of money that is going to be given back to the people who are wagering is not going to be anywhere near 95%, so you then get into the same kind of competitive problem.

But the main point I want to make is that the charities are already in competition, and that competition is going to affect some of them. If the intent of this government is to try to keep the charitable casinos whole so that the charities will not suffer, then it will not be able to unless there's a fail-safe provision where some of the moneys that go into the government-run casino find their way back to those charities.

Mr Eves: Responding to a few of the things Mr Sutherland said, the government has the opportunity under this amendment to do whatever it wants by regulation. If it feels in the Windsor area that charitable casinos have not been a big factor in the gaming dollar, then it has the ability to administer that by regulation.

The fact is, though, that Bill 8 will apply not only to the city of Windsor, but if there are other casinos that eventually find their way into the province of Ontario—for example, to talk about B'nai Brith, which presented, that foundation raises \$4 million a year right now with charitable casinos, and there is no doubt it will be severely adversely impacted by the growth of the casino industry by the province in the city of Toronto if a casino happens to find its way here.

Coopers and Lybrand I thought were very upfront when posed with this question when they made their presentation. They said undoubtedly charitable casinos will be out of business if the government doesn't take some steps to do something to protect their interests.

This is simply, as Monte says, a fail-safe mechanism to permit the government to at least do something in the statute, rather than relying upon good faith, to directly assist charitable groups.

The Chair: Mr McClelland?

Mr McClelland: I thought I was done, until my friend Mr Sutherland made a comment. I think, Mr Sutherland, you should be very careful. I'm sure you didn't mean it in a flippant manner when you said that charities are doing very well and will continue to do well. Perhaps you should talk to the leader of your government and some of your caucus colleagues and colleagues in cabinet, who have certainly received visitations and presentations from a number of charities, who will tell you quite the contrary: There are a number

of charities that have been impacted extremely severely, in large measure a result of the recession, in large measure a sense of uncertainty in terms of what's going to happen.

As I said, I was ready to lay this to rest; I thought I'd made my points. But there are some in the charitable organizations who would suggest that an NDP socialist government has a philosophical concept that says the government can do everything better. They've seen it in business; They've seen that kind of philosophy being brought forward. I would simply say, Mr Sutherland, if in fact that's your position, that charities are doing very well and are going to continue to do well, then you should talk to some charities. They don't have any confidence. They're worried. They're worried because of the realities of the economic situation that we're all in, but they're also worried because of the sense that the government doesn't understand or doesn't perceive or, secondly, perhaps thinks it can do a better job.

I think you should perhaps consider that and maybe dispel that if that's—you're shaking your head. If you don't believe that, say so, because a lot of charities will say: "That's exactly why we want an amendment like this, because then we can come back to you in government, or to whoever else is in government, and say there is a mechanism in place. You've given acknowledgement to it."

I think their fear is that they would come to you, Mr Sutherland, and say, "We have some concerns," and you'd say: "Look, you're all doing well. We know you're doing well." "How do you know that?" "We just have a sense you're doing well." They would then say, "Can you help us?" and you'd say, "There's nothing we can do." The charities could then say: "There must be something you can do, because you've established a regulatory framework to look at this. There's a mechanism. Can we make submissions to the appropriate officials to review the regulatory scheme?"

To make a sweeping statement that says that they're doing well—that's absolutely not true. I'll be attending and speaking at a conference in late September that will have some 240 organizations, charities, that will be present, and they are very, very concerned. Some of them are saying, "We may not be in the business of doing the charities that we set out to do a number of years ago." Part of that is natural evolution; I recognize that. Part of that is a function of the economy. But what they're saying is, "Many of us are on the edge." It's literally month to month.

Just last Friday I had a charity that's been operating for five years in my community that is now two months in arrears in their rent. It's the first time in 58 months that they've been behind in their rent. They can't make the rental payment. They asked if I would speak to Mr Silipo on their behalf, because they're in trouble.

So please don't say that all charities are doing well.

Many of them are in serious, serious trouble, and it's because of that that they're saying, "Give us some assurance."

The parliamentary assistant I think has said very well that that's the policy of the government, that you want to support them. I'm telling you that some charities think you don't. Some charities believe that you want to put them out of business because you have a philosophical predisposition that says government can do better. I'm not saying that; I don't buy that. I know enough of you personally, and many of you—your colleague sitting to your right devoted a huge amount of time in his life to charitable work. You believe in charities, but I'm telling you that the fear is out there, so please don't say they're all doing well.

Mr Sutherland: I should take that comment back. They're not all doing well. They are impacted by the recession. But some of them are doing well.

The point I want to come back to, though, is that this amendment is saying the charities should be protected. We've heard from the B'nai Brith how it's doing very well with the charity casino, and all power to it that it's doing very well. But how do we know that the B'nai Brith isn't doing well at its charity casinos at the expense of other charities? Do we go to the B'nai Brith and say, "Because you're doing so well, some of your money should go the other charities, because they're not doing as well because you've got a very successful charity casino operation"?

1050

Mr McClelland: Sounds too much like socialism. I wouldn't put it that way.

Mr Sutherland: But that's the argument you're making here. That's the argument you're making with this amendment in terms of casino gambling, which is charity casinos. I mean, how are you going to be able to tell? How are you going to be able to identify specifically that a charity has lost revenue due to the casino when it's maybe to another form of gaming, period? That's the situation that could be going on now. Other charities could be suffering because B'nai Brith is running a very successful operation, but you're not saying B'nai Brith needs to give some of its funds to these other charities that are suffering. Therefore, I don't see why you say the casino revenues should give money to the charities as well.

Mr McClelland: I think your government has acknowledged that it will set up a mechanism to study the impact. In fact, you'll recall that we had a bit of a fly in the ointment yesterday with respect to section 6 and a series of amendments numbered (5) through (8). Those amendments, which the government supported, say: "Yes, there will be an impact. We acknowledge there will be an impact, and we're setting up a mechanism to monitor it." How will you know? To answer your question, you'll use the mechanism that you've

established in recognition of the fact that there will be an impact. I answer your question with your own amendment, your government-supported amendment, that there will be an impact. You acknowledge it, and now you'll measure it, and that's how you'll know the quantity.

Mr Kwinter: I'd like to respond in part to Mr Sutherland. The difference we have between the competitive aspects of charity casinos and the casinos as contemplated under the Ontario Casino Corp is that the government is the regulator. In a free market, where everybody goes out and competes, I would agree with you, but we don't have a free market. We have a situation where the government is in fact playing both ends against the middle. They are regulating the charity casinos, they're determining how and when they can operate and under what conditions, and they are setting up a competitive organization to compete for exactly the same dollars.

Now, you may argue, "No, the people in the charity casinos are after the local market and our casinos are going after the tourist market." I don't know how you differentiate that. It's true there may be a skewing at the border communities but, without question, and it has been spelled out by independent observers, charity casinos will have to suffer if in their same market a government-run casino of the type contemplated under this act is set up.

The issue isn't whether all charities are going to suffer and whether the government has a responsibility, because then you'll say, "Well, some of the money may be diverted from lotteries and may be diverted from horse racing," and of course the horse racing industry is asking exactly that the government at least contemplate a level playing field, where it doesn't tax them at a rate much higher than it taxes every other type of gambling.

I think the difference and the reason your argument really doesn't hold up is that you have this situation where there is a potential monopoly by the government and it's going to impact on those very people it regulates. If they were to say to the charities, "You will not fall under our regulations; you go out and do what you can," that's one thing. It's another to say, "We are going to restrict and restrain your ability to use this particular vehicle to raise money, but we should also tell you that we're going to set up a parallel operation that's going to compete for those dollars." When you do that, I think there's an obligation to say: "Understand that the reason we're doing this is that there's an untapped tourist market we're trying to capture, but don't worry. Notwithstanding that we're going to do this, we will work out some scheme where you will be not severely or financially impacted by it by having some sort of revenue sharing."

I think that is the issue. I don't think it's an issue of, "Do we have to look after every other person?" I'm

saying we have a unique situation where the government has control of both aspects of casinos: charity casinos and a casino as contemplated under this act. By virtue of that, I think there's an obligation to at least look after the problems this act is going to create, and that is the point. There are going to be problems without this act, but this act by itself is going to create a problem that is of the government's doing. The people who are regulated under another aspect of the basic Gaming Act are going to be impacted and have no recourse, and that is the issue.

Mr Duignan: Again, to state the government's position, we remain committed to increasing the profitability of charitable gaming. B'nai Brith, which appeared in front of this committee, was talking about a level playing field, looking for a permanent charitable casino, for example. As I said earlier, that is something we've said neither yes or no to at this point, and it will be all part of this interim study of what happens in the Windsor area.

Also, when we talk about dealing with charitable institutions on a rotating basis, we've got some 50,000 gaming licences for charitable organizations in this province right now, and that doesn't include the ones that don't hold gaming licences, so it would take one heck of a long time, even if we did one a day, to move through that amount of charities when you consider some 50,000 of them hold gaming licences in this province.

It's something the government will continue to monitor and, as the minister has said, if the permanent casino is having an impact on the charitable casinos, she will look at that situation and deal with it. The reason the advisory committee was formed was to keep a watch on what happens in regard to the changing gaming market. I'm sure that committee will be making many recommendations to the minister on how to make sure that the charitable gaming part of the market remains competitive and is returning a fair profit to the charities.

Mr McClelland: Last comment: I just wonder what would happen if a parliamentary committee went back to a minister and said: "You know, we heard something that we actually thought was pretty good and was consistent with what we were saying. I know we didn't agree to do it ahead of time, but we're actually going to do it because it makes sense." Wouldn't it be interesting to see what would happen instead of just going back to the minister and saying: "We read your answer, Minister, and we read what your policy people told you to say, but do you know what the third party suggested? It's pretty consistent with what you're talking about. In spite of the marching orders we had, we're coming back to you with the recommendations in support of that." That might be a novel direction in government. I just throw it out. It's a bit of a rhetorical question and statement.

The Chair: Any further discussion on this motion? I'm sure everyone would appreciate a recorded vote.

Mr McClelland: How insightful of you.

The Chair: All those in favour of the motion?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips (Scarborough-Agincourt).

The Chair: All those opposed?

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: The motion is lost, which brings us to Liberal motion subsection 13(1). Which member of the Liberal caucus would like to read this?

Mr McClelland: Actually, as printed, there's an error. I want to delete the words "city" and "or region" so that it would read as follows:

"I move that section 13(1) of the bill be amended by adding new paragraph 5 which reads as follows:

"5. Payment to any municipality in which the corporation operates a casino pursuant to this act."

I think it's—I don't know if "redundant" is the perfect word, but perhaps out of order, inasmuch as the latter part of what are now the purposes of the bill makes this effectively a nullity. We've rejected the concept that payment should be made, so it's sort of—

The Chair: Do you want to not include this—

Mr McClelland: I don't want to withdraw it. To be very candid with you, we feel very strongly that there should be a mechanism to set aside funds to pay the costs associated, the direct costs. I know it's another kick at the can, that we've already lost the issue, and I know my friend Mr Eves wants to make some comment about it.

You understand the intent of the section. The intent of the section is to set aside funds to cover off the costs. It's part and parcel of the debate we just had, and I think it's consistent with the philosophy we have.

Mr Eves: Actually, I'm supportive of this amendment. We have a later amendment in section 18, I believe it is, that will request that there be provision made for municipalities to share directly in a certain percentage of the money raised by the province by way of tax. We've already had this debate earlier on, actually, in section 6. We just feel strongly that there should be some mechanism for the municipality in which a casino is situate to share directly in the revenue from that casino.

1100

The Chair: Further discussion? Comments? We'll have a recorded vote. Indeed, I think it would be appropriate that, to assist the Chair through these voting deliberations, we record every vote just so I'm certain where I stand.

Mr McClelland: It probably makes sense, unless you're getting nods around the table that everybody's in agreement.

Mr Chairman, just in the interest of time, as we get to later in the afternoon, if we're still here, there are many I could generally term housekeeping measures with respect to Bill 26, and I suggest that we may be able to go through that in a fairly pro forma fashion.

The Chair: That would be wonderful.

Mr McClelland: Otherwise, a recorded vote is probably better presumed.

The Chair: So we'll have a recorded vote then. All those in favour of the motion?

Ayes

Carr, Eves, Kwinter, McClelland.

The Chair: All those opposed?

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: The motion is lost. The next motion is a PC motion, section 13(3).

Mr Eves: I'll withdraw that one, in light of the fact that Mr McClelland has a 13(3) amendment which perhaps more properly addresses the same points.

The Chair: Very well. That brings us to the Liberal motion subsection 13(3). Mr McClelland.

Mr McClelland: I'm happy to move it, but I'm wondering if out of courtesy we can wait just a moment and see if Mr Phillips—I just want to advise the committee that this is really a product of Mr Phillips's concerns. I know Mr Kwinter also feels very strongly about it. I'll be happy to move it, and I wonder if the Chair would just make sure that Mr Phillips has an opportunity to speak to it. Let me then move it on behalf of Mr Phillips.

I move that section 13(3) of the bill be amended by adding the following:

"13(3) All contracts entered into between the corporation and any operator of a casino shall contain a provision stipulating that the operator shall be solely responsible for any operating deficit, and furthermore that the corporation shall not assume any debt or liability resulting from the operation of any casino."

Mr Chairman, I'll allow Mr Kwinter to make the opening comments on that, with your permission.

Mr Kwinter: This is an issue that I think is absolutely critical in the negotiations and in the final agreement with whoever the successful proponent is.

In several of the conversations we have had with the staff of the ministry, when I have alluded to the fact that there is no guarantee that just because you have a casino you're going to make money, their feeling is that this is silly, that casinos are guaranteed to make money by their very nature.

I would respectfully submit that all you have to do is look at the history of casinos and you will know that many casinos in Las Vegas have gone into receivership and in fact have gone bankrupt, that casinos in Atlantic City have gone bankrupt, casinos in other jurisdictions in the United States have gone bankrupt, and I assume this same situation holds true everywhere in the world. These are businesses. These are businesses that have to be run and there is no guarantee that they will be successful, notwithstanding the fact that on the surface it seems to be.

Again, if you refer to the article I circulated this morning, it appeared in this week's Business Week and is written by Gary Becker, who was a 1992 Nobel laureate and teaches at the University of Chicago and is a fellow of the Hoover Institution. Here is someone who's received the Nobel prize and I assume has no axe to grind, is not biased one way or the other, and he gives his view of the situation pertaining to government involvement in gambling.

If you take a look at the very last paragraph, he says, "But governments have been no more successful at these activities than they are at providing other services: New York's OTB offices are among the few unprofitable gaming establishments in the world."

When you consider that it is a competitive business, where in Las Vegas and other venues they give 95% of the money back to the bettors, and by the very structure of the Ontario Casino Corp and its mandate they will not be able to do that, you're going to be in a competitive situation.

The concern I have is that any proponent who has any kind of business acumen, and I would assume that every one of them must have or they wouldn't be where they are, is walking into a situation where the government is saying: "You build this facility, you operate it, and we will pay you a fee. When we pay you that fee, we will then take all of the profits and we will also take 20% of the win in the form of a tax."

I can tell you, if I were a proponent I would insist that if I'm coming into this deal, I would want a guarantee that I'm going to get a reasonable return on my investment. I'm going to have to go to the banks, to private individuals, to lending companies, maybe to the public through a stock offering, to build this many-hundred-million-dollar facility. No one is going to take their own personal money and put into it; that's not the way it works. They've got to go out and borrow this money, and in order to borrow the money, they've got to be able to assure those people who are either lending or investing that they are going to get some security and at least a fair return on their investment. Any proponent is going to insist on that.

The deal is going to have to be structured that at no time will the return to the proponent be less than x , whatever that amount is. Otherwise, nobody will go into

it. It isn't as if you build this and you're unfettered and you take your chances. They are coming into an operation where they are severely restricted as to their ability to run a casino in the way that casinos are normally run.

We then have a situation where they are also going to insist—again, I haven't seen the proposals, and I'm hoping that either the Legislature as a whole or this committee as a minimum will get a chance to see the terms of that proposal, because I will predict again that any astute businessman who makes a proposal will say: "We also want to have some sort of guarantee that if this thing doesn't work, if it loses money, that is not going to be our problem, because you're the owner. You are the beneficiary of the bulk of the revenues. We are going to be getting a management fee plus." I predict they will try to negotiate some sort of incentive profit-sharing scheme that the better they do, the more money they make.

But there is always the downside. There is always the possibility that after the initial interest and the initial flurry of people coming to see what it's like, this thing could fail. I'm not saying it should and I'm not saying that I hope it does; I'm just saying it is a possibility that it could fail.

Somewhere along the line, there has to be a provision as to who picks up the shortfall. In our motion, we are suggesting that this be a part of the obligation of the operator. That's going to create some problems for the operator, and I suggest to you that's going to have to be dealt with in the negotiations. But surely if this is an initiative of the government, the government has only two choices: It says either that it will indemnify anybody who loses money or the operator will. We are suggesting that it be the operator, and that is the purpose of this amendment.

1110

Mr Phillips: Of all the things in the bill, this is probably the one that's most important to me and I think to the public. Let's understand what we're getting into here, in my opinion. There's no doubt, based on everything I've heard and seen, that we're going to have seven, eight, nine communities in the province just banging at the door. This is the salvation of these communities, in their minds, and they're going to want these \$250-million facilities built and these 3,000, 4,000, 5,000, 6,000 jobs created, and anybody who stands in their road, woe betide them.

At the same time, in my judgement, every community in North America is facing the same thing, and we're going to see a proliferation of these things. As I say, everybody thinks this is the great golden goose or cash cow. It's the latest gold rush, and I see it everywhere. In my opinion, people have lost perspective about this thing. They have their views on it, and it seems that in some respects, in my opinion, they're blinded by all the

money and jobs this thing's going to throw off.

The problem is, I don't want to be sitting around here five years from now when two or three of these things can't cover the enormous overhead that's going to be put on them, and the overhead is going to be a \$250-million debt. The bill itself says the province gets its rakeoff even before the expenses are paid, so if the expenses start getting bad, tough luck; the province is going to get its rakeoff before the expenses are paid.

As that article says, the competition in Vegas now indicates that the win pool is 5%. All of our documents on the financial viability say the win pool is going to be 17% or 18%. I predict that bettors aren't stupid and they're going to be going where the odds are the best, and if they can get dramatically better odds in Detroit than they can in Windsor, they'll know that and they'll head across the river for that. I think the only way to protect the public in this is, if the private sector is so keen on this thing, to get it sharing in the rewards and, if it doesn't fly, in the problems associated with it.

I go back to SkyDome. Sure, I think the public is very angry having now to—well, the government's written off the \$330 million three years ago on the SkyDome; it's completely written off now. But surely we don't want to have four or five of the seven or eight with the public on the hook. Believe me, if in the end we are responsible for it, it's like six or seven huge factories, with all of the debt — and, frankly, with all the jobs, because you try and close one of these things when there are 2,000 jobs attached to it. Everybody knows the political pain associated with that.

As I say, I think we have an obligation on behalf of the public, when we're entering what has to be regarded as a high-risk venture, almost an out-of-control high-risk venture, that the public are protected from the possibility of their hard-earned dollars going to cover the liabilities of this thing. Keep the Hansard, because I predict if we don't have this in there, five or six years from now we're going to be sitting around here with two or three or four of these casinos in enormous difficulty, unable to compete, carrying a huge debt, and the private sector saying: "Well, goodbye, because all I'm doing is managing this thing for you. You're the owner. I've decided I'm not going to continue to manage this thing any longer." Goodbye, and the public will be picking up not only the debt, which is bad enough, but the ongoing operating losses of the thing.

Mr Eves: I won't belabour the point; I think the point has been made. We had a similar amendment, but I actually prefer this amendment that Mr Phillips has drafted because it calls for the fact that when contracts are entered into between the corporation and the operator of a casino, this provision shall be in there.

I think the public and the Ontario taxpayer have to be protected, as does the casino corporation. I think we would all agree, at least I hope all of us sitting around

the table would agree, that we don't expect the province of Ontario or its taxpayers or the Ontario Casino Corp to be liable for any debt or liability resulting in the operation of a casino. It may be easy to say, if you're only looking at one casino, that this isn't going to happen, but I can't see any downside, from the government's point of view, of wanting to protect itself in negotiating with whomever the operator of the casino is going to be, and I would hope that the government would seriously consider this amendment.

The Chair: Any further discussion?

Mr Sutherland: I would just point out that there is more than one way of achieving this objective. It can be negotiated through a legally binding contract. It doesn't necessarily have to be in the legislation either.

Mr McClelland: That's what it says—

Mr Sutherland: But it can be done without legislation, is what I'm saying.

Mr Eves: Why would you disagree with this if you can do it anyway?

Mr Sutherland: Mr Chairman, could I ask for a five-minute recess, please?

The Chair: Sure. We'll recess for five minutes.

The committee recessed from 1116 to 1128.

The Chair: I call the committee to order. We were concluding discussion on Liberal motion 13(3). I believe we concluded our discussion but I'll ask, is there any further discussion on that motion?

Mr Phillips: I've heard nothing from the government on its comments on it.

The Chair: We'll ask Mr Duignan if he'd like to make a comment on this.

Mr Duignan: I'm wondering if the Liberals would be able to stand down the motion for 5 or 10 minutes. I understand the deputy minister is in a meeting with one of the proponents at this point in time, but Domenic wants to come over and address the issue raised in the Liberal motion.

Mr McClelland: We'd be happy to do that, I believe.

The Chair: We'll stand down this motion till another time when it's more appropriate. That brings us to a PC motion, section 13.1, and I'd like to advise the members of the Progressive Conservative caucus that your motion is out of order as it imposes a tax, which only a minister can do.

Mr Carr: Only Floyd can. He's good at that.

The Chair: The motion is also beyond the scope of the bill, as it refers to the Race Tracks Tax Act.

Mr Eves: Tell me it isn't so, Mr Chair. We had a slight inkling that you might find this amendment out of order.

Even Coopers and Lybrand stated when they were

here that they feel it is time the provincial government looked at the rate of tax in the Race Tracks Tax Act. The only point of trying to make such an amendment is that we hope the government will take this matter under consideration. We realize the Race Tracks Tax Act itself would have to be amended by the government.

The Chair: Mr McClelland, would you like to make a comment?

Mr McClelland: Very briefly, we support the concept. I suspect we're going to get the same ruling a little later on when we get to our amendment numbered 18.1, I believe, that is similar in terms of its intent. Obviously, we would be supportive of the general principle of the motion as proposed by the Conservative caucus.

Mr Duignan: On that same amendment—

The Chair: You want to speak to this out-of-order motion?

Mr Duignan: Yes, very briefly. The points raised by the horse racing industry, indeed by a number of other people appearing before this committee, have been noted. I too have a concern and I too will, as I said, be bringing these and have brought these concerns to the attention of the department of Finance. The parliamentary assistant of that minister is a member of this committee as well.

The Chair: Because we have stood down an amendment, it will be necessary to deal with section 13 of the bill at a later time.

Mr Duignan: I wonder if we could go back and deal with section 1 of the bill. We stood down an amendment on section 1.

The Chair: If it's agreeable to the committee members, we can certainly go back to that at this point in time.

Government motion, subsection 1(2), Mr Duignan.

Mr Duignan: I move that section 1 of the bill be amended by adding the following subsection:

"Minister

"(2) The minister responsible for the administration of this act and the minister responsible for the administration of the Gaming Control Act, 1992, shall be different ministers."

The Chair: I recognize that we had considerable discussion about this and similar motions earlier.

Mr Duignan, I've been informed by the clerk that you will have to withdraw the previous motion that you stood down.

Mr Duignan: I will certainly do that, Mr Chair. I'll withdraw our original motion.

The Chair: Thank you very much, Mr Duignan. As I was saying, we've had considerable discussion about the content of this motion. I'll ask the committee if it would like to discuss this further.

Mr Kwinter: I just wanted to thank the parliamentary assistant for reacting to my comments and to tell him that I am certainly more pleased with this particular provision.

The only other part that still creates some concern for me is that I feel it should be a separate section of the act. Section 1 talks about "casino," the definition; it talks about "corporation," the definition; it talks about "game of chance" and a definition. When you talk about "minister," it doesn't talk about a definition of what the minister is; it just talks about who has responsibility. It would seem to me that it would be more appropriate to have it as a separate item, because it just doesn't fit into that particular section, which lists definitions.

This doesn't define "minister" as someone who is appointed by the Premier to sit on the executive council or whatever it is; it isn't a description of a minister. It just makes a provision for the administration of the act to be someone who is other than the person responsible for the administration of the Gaming Control Act. As a result, I think it should be in a different place; I don't see another place it could fit into, so it would seem to me that the simplest way to handle it would be to make it a section by itself. Just give it a number and that's it.

The Chair: I understand that legislative counsel, Michael Wood, would like to respond.

Mr Michael Wood: I'd like to respond to the concern that Mr Kwinter raised. I appreciate what he is saying; however, I would like to draw to his attention the fact that in many of the statutes of the province we have proceeded in this fashion. What this subsection would do would provide an interpretation of what is meant by "minister" in the whole act. The definitions in subsection 1(1) similarly apply to the whole act.

I can show Mr Kwinter a few examples of other statutes where the same thing has been done. Subsection 1(1) sets out definitions and other subsections of section 1 set out interpretative guidelines. Even though they are not, strictly speaking, definitions, they do provide guides to interpretation that apply to the whole act. In so far as they apply to the whole act, I would submit that it's more usual to find them in the first section dealing with definitions and matters that apply to the whole act.

Mr Kwinter: I stand to be corrected, but I can't recall in the years I've been in government any act that has a provision that the act excludes a particular minister from having responsibility and that it must be two separate ministries. It would seem to me that this is relatively unique, but again, I stand to be corrected. There may be some other situation where there is a provision that one minister cannot have responsibility for both acts.

Without trying to belabour it, section 1 deals with definitions. This is not a definition. This is a statement

of fact that under the provisions of this act there must be a minister who is different from the minister responsible for the Gaming Control Act.

It's not a big thing that it's going to be in there. I'm just saying that as a matter of form, if section 1 deals with definitions, given the uniqueness of this situation where we have enacted in a piece of legislation a provision that there must be two ministers responsible for two different aspects of a similar kind of administration, I don't see what the big problem is to just have it there by itself. I don't think there is a precedent for this particular arrangement. As I say, I don't think this act is going to rise or fall on it. I just think it's a matter of form, and it would seem to me that would be the proper form.

Mr Duignan: We were totally flexible when we went into this and a new section was created. We solely relied on the advice of legislative counsel, and the legislative counsel's advice is to include this in subsection 1.

The Chair: Any further discussion?

Mr Eves: I want to affirm our support for the amendment as it's redrafted. I guess I'll have to rely upon the advice of legislative counsel as to where it should go, but it's a much more positive amendment now than it previously was.

The Chair: Any further discussion? Seeing none, shall the government motion carry? Carried.

Shall section 1, as amended, carry? Carried.

We now move to section 14 of the bill. Any discussion? Seeing none, shall section 14 carry? Carried.

That brings us to section 15 of the bill. Any discussion on section 15? Seeing none, shall section 15 of the bill carry? Carried.

The clerk has asked for five minutes to deal with some administrative work.

Mr Eves: That's my fault. I just gave the clerk a copy of an amendment a few minutes ago.

The Chair: I understand the photocopying won't take too long. I guess we should just recess.

The committee recessed from 1140 to 1151.

The Chair: The committee will come to order. Mr Duignan.

Mr Duignan: We have the deputy minister and the assistant deputy minister here with us at this point. They're really stuck for time: The deputy minister had to leave a meeting and the meeting is on hold at this point. Maybe we could revert back to that particular amendment, subsection 13(3)? It seems to be agreed.

The Chair: We've brought Liberal motion 13(3) forward. How do we wish to proceed with this? The deputy minister may wish to address some of the concerns raised in that particular amendment. Ms Wolfson.

Ms Judith Wolfson: Thank you for allowing us the

opportunity to shoot over. Of course, with me is Domenic Alfieri, the assistant deputy minister.

We were requested to perhaps give some assistance to the committee in terms of other considerations that might be helpful to consider in looking at this amendment. You'll appreciate that we haven't had an opportunity to put before you any material, but I do want to explain, and I will ask Mr Alfieri to assist me, some of the conceptual framework we've had around the corporation and operators and how that would work for future investment, not just the specific casino we're thinking about in Windsor, because obviously as we're looking at a legislative framework, regardless of the government of the day, we want to think about the kind of system that would accommodate various models.

The particular model in question for the casino in Windsor does not contemplate in any way an indemnification for the company by the government of any losses. Frankly, I am in some difficulty explaining detail, because the meeting I'm conducting today is that I am the chair of the selection panel and I have been spending the last two days reviewing requests for proposals. I am looking at models, and those are all of course not subject to disclosure, so the specific models I'm not privy to discuss.

There is absolutely no requirement or there is no contemplation of having any partner indemnified; very different, for instance, from the Dome situation. I don't know whether that's come up before the committee as an analogy.

Mr Wayne Lessard (Windsor-Walkerville): We never thought of it.

Ms Wolfson: You didn't think of it? It's very, very different from the SkyDome or very different from, for instance, a situation like Algoma. It's very different from any of those particular company-specific situations, because here what you're doing is creating a legislative framework that allows contracts to be entered into, and there would of course be provision in any contract with any operator that would protect all government investment.

The difficulty with enshrining in legislation specific indemnification, I would suggest, is that really one doesn't know the kinds of partnerships that one could envisage for a very major industry, and the casino industry is indeed that: a major economic development tool. Frankly, the more Ontario and its public servants learn about this industry, the more I am convinced that it is a major potential driving force for economic development should a government wish to do so.

There are many models for operation. There are partnerships. There are models where the government could be the operator totally, and one would think, frankly, that when the government develops the expertise and when Ontarians develop expertise, we may want

to be in a position to operate casinos ourselves in the future. I don't know what a government will decide at that point. We may want different forms of partnerships.

What we are seeing as you look at the international arena on casino gambling is that many different models are coming up right now. It's a burgeoning industry. For instance, in native gaming across the United States, there are very different, interesting models. There's ownership. There are management contracts that decline over a period of years and people take over and, through contract, protections are built in.

The difficulty is that, number one, we don't yet know what all the possibilities are for partnerships in their best sense. Right now, the model we're looking at will be that the government will not be operating the casino. It is the view of the government that we don't have the expertise to operate a casino right now, but there will be partnerships and there will be opportunities to do things, should a government decide to do so, in different ways.

I'm spending a wee bit of time talking about that because I do think it's important to understand that the legislation, in my view, should incorporate the ability to form different kinds of partnerships in different ways, without sending a signal to the business community that we're going to put barriers. Frankly—I speak now wearing a lawyer's hat; I shouldn't, because that's not the role I'm in—we know we can put up in contract any kind of protection that one would want. We want to send a signal, I would suggest, with our legislation that says every integrity of the system will be built in, but barriers to doing business in Ontario are not there.

It's our view, and I'm going to ask Domenic to expand on this from knowing more specifically the modelling, that it would send a signal, if we're requiring indemnification of an operator, that there's a negativity, that Ontario's expecting a negativity, and that we're not building in any protection that we couldn't have otherwise. I am concerned about that.

1200

Mr Domenic Alfieri: All I wish to do is to echo what Ms Wolfson has indicated, that throughout our interfaces with all the potential bidders, the question of losses and our covering their losses has never come up, in the sense that in the dialogue and in the bids themselves that we have reviewed, there's absolutely no question that any contractual arrangement we will be entering into will not result in the corporation or the province being responsible for any losses. The operator is responsible for financing, designing, building, equipping, furnishing and operating the casino, and we receive revenue through the up to 20% tax and through the net profits. Beyond that, the contractual arrangement we're going to enter into, as evidenced by their own submissions to us in response to our RFP, will assert that principle and that premise.

In terms of what needs to be done from a sound

business perspective, I think we are very much in concurrence with the proposed amendment. The difficulty we have is to enshrine in legislation and engrave in stone something which—depending on how one wishes to use a casino, and, as Ms Wolfson has indicated, this can be a first-class instrument if one wants for an economic development tool—does it in a way that sends to not only this industry but perhaps other industries a message that will say, “Don’t bother looking at Ontario,” and discourages them from looking at Ontario as an investment opportunity. I think we can proceed to put in place the necessary protection—as I’ve indicated we intend to do at least for Windsor because that’s what we’re involved with now—without sending this very, very negative message.

The Chair: Mr Kwinter, to start.

Mr Kwinter: I appreciate that you’ve taken the time to come and address the committee. I’ve just shared with the minister an article that appeared in this week’s *Business Week* in which a Nobel Prize winner states that governments have been no more successful at these activities, referring to gambling activities, than they have in other services they provide and that New York’s off-track betting offices are among the few unprofitable gaming establishments in the world.

If you take a look at the very last line, where because of competitive situations the casinos in Las Vegas have had to return 95% of the amount wagered to the bettors, it would seem to me that we are getting into a highly competitive business. It’s an industry that could be very, very successful but, like all industries, it could be an industry that could be very, very unsuccessful. This happens in every single sector of our economy. There are companies that are the largest in the world that go bankrupt, and there are companies that survive.

My concern is that the model we now see—and I’m not saying it’s going to be the final model—is really a hybrid model that is relatively unique. It’s something where, by the admission of the minister, we don’t really know where we’re going on this thing because it’s evolving, really evolving as we go along, and we may have to enter into a different kind of a relationship; we may wind up running them ourselves. We’re sort of feeling our way because we don’t have the experience, and I accept that.

But by that very admission, what you are really saying is that we are entering uncharted waters—as a sailor, I can use the analogy—and when you enter uncharted waters there are reefs out there, and it’s quite possible that you’re going to find yourself on one of those reefs.

The problem I have is that you’re asking a proponent to come forward to be a manager of a government facility. You’re asking them to invest in this facility. They’re going to have to invest in the magnitude of at least, from the figures that have been released, \$250

million. They’re going to have to go out and borrow it from the banks, borrow it from their shareholders or borrow it from the private sector, and there’s going to have to be some guarantees.

There’s nobody who is going to build this thing and say, “We’re going to do it on the speculation that it’s going to be successful,” if they can’t operate in a free market and run it the way it can be successful. “If you want us to play by your rules, we have to have some assurances as well.” I’m sure you’re finding this.

I’m not asking you to divulge any of the information that is confidential in your negotiations, but I can tell you that if I were one of the proponents I’d want to make sure that at the very least I got a fair return on the amount of money I’m investing; and not only do I get that return but, given the fact that I’m kind of hamstrung in the way I operate by your rules and you’re the guy that’s setting the rules, I would want to have some kind of assurance that that’s going to happen.

The problem I have is that even under the best of circumstances—and we’ve heard of casinos in Las Vegas going bankrupt and we’ve heard of them in Atlantic City going bankrupt—there is a potential for a negative result. Nobody wishes that. Everybody is going into this with the expectation that it’s going to be great.

Without trying to rethrash old straw, I’m convinced that at every committee in the past that looked at the buying of Suncor shares, that looked at investing in Minaki, or looked at doing all of these other things, there were consultants’ reports and there were enthusiastic ministry officials who said, “This is great, it’s going to be terrific, and we think we should go ahead with it.” I don’t think any government goes into these things thinking it’s going to be bad. As a result, these decisions are taken.

My concern is that somewhere along the line, particularly given the constraints that are particularly attributable to this model, the fact that we have this hybrid situation where the manager is expected to make the investment—that’s rather unique, when you say to someone: “You’re going to manage it. It’s going to be ours eventually, but you put in the investment and you manage it. But I should also tell you that there are some limitations: We’re taking 20% off the win and you can’t have liquor and you can’t play craps and you can’t do all of these things. Go ahead and good luck to you, but make sure we get what we’re getting.”

Somewhere along the line, for a responsible government, never mind a prudent investor, there has to be a provision that says, “What if?” What if all of our great projections don’t come to pass? What if there is a loss? What if this thing turns out to be a white elephant and we’re losing money? Who is responsible?

Whether you’re going to say, “That is not a concern, because we don’t want to dissuade proponents; we as a

government are going to be responsible, and if this thing doesn't work that's a risk we're taking and we as a government are going to do it," or "The proponents are coming into this thing with their eyes open and if there are any losses they are responsible for it," that is the issue.

I have a concern for the taxpayers. I don't think the taxpayers would be thrilled to know they're going into a venture that could again turn out to be a SkyDome or a Minaki Lodge or a Suncor, whatever it is. I think there has to be a provision and an absolute enshrinement in the legislation that says: "If there is a problem, this is who's responsible. We're not going to go to court and fight about it afterwards." Up front we're saying that if there is a negative result, as I said, from a political point of view, I certainly don't want it to be the people of Ontario who pay. I think there has to be a realistic approach that yes, this could be wildly successful, but it could also be a bomb. There has to be a provision for that.

The Chair: Thank you. Mr Phillips.

Mr Phillips: All the deputy's presentation and the assistant deputy's presentation did was reinforce the need for this, in my mind.

First, the deputy called this a major economic tool, that it's going to be a great industry. I have another view that says that in every jurisdiction in North America there's a similar meeting going on, each of which thinks it will be a big economic tool. We're going to have, in my view, around North America a whole bunch of these things, with great expectations that aren't delivered on. That's what we have to protect the public from.

Secondly, if it is the intent of the government to live up to the spirit of what's proposed here, but your only concern is that it may sound a little off-putting to potential investors, I say that's too bad. They should know what the intent is. This is what I think the intent should be, to avoid—inevitably I think there will be eight or nine of these things built at \$200 million each, and several of them will fail, in my view. I don't want the public on the hook when the operator says: "Well, sorry about this thing. It's over to you now, government. You find somebody else to manage this and take on the responsibility."

1210

I just think we have an obligation to the public. There's no litmus test quite as good as the private sector being ultimately on the hook, knowing full well what it's going to do for the full responsibility of this thing, in terms of proving whether in fact this is a good idea or not. As I've said at committee, this seems like a gold rush. People think it's going to throw money out, that it's going to create 97,000 jobs, \$850 million to the province, all these wonderful things, and when we get that environment, everywhere I go, in my view, people

are mesmerized by it.

I think this protection has to be in the legislation. If it runs the risk of offending some of the potential investors, so be it, but I think that's the only way to spell out that in the end the public isn't going to be on the hook for these things, either the debt or, frankly, their operation, because just try to see one of these things that isn't operating. With 2,000 jobs at stake in a small community, it's a very tough thing if it's the government running these things.

The third point you made was that we're not sure what these things will be in the future, that maybe the government would love to be owning and operating these things. I don't think that's what's intended, that the government will own these things and invest \$250 million of public money to build them. If it is, then I think we should tell the public, "Listen, this is where this thing's heading and you, the taxpayers, are going to have a few of these casinos on your hands."

Everything you've said merely reinforces, in my opinion, the need for this to be in the legislation.

Ms Wolfson: I hope I haven't been unclear on where I'm coming from, if I'm convincing people with my own arguments. Let me try and address those specifically.

Let me take the last one first, Mr Phillips. The issue of whether the government of the day will wish to have more casinos or not is really not something we are addressing. Only through legislation is there a potential, that one is able to do so, and therefore you look through legislation at what is possible so you're not rewriting legislation unnecessarily.

The government, according to our understanding of the Criminal Code, is required to own the casinos, to conduct and manage casino gaming in Ontario.

Mr Phillips: To own the casinos?

Ms Wolfson: Well, to conduct and manage, to own the operation, to operate a licence of a casino. Government can never, in Ontario, say: "You, someone over there, can take the whole thing. We won't be involved." Our Criminal Code requires the government to conduct and manage casino gaming in Ontario. It does not require ownership of the building. It requires an involvement in conduct and manage, which we interpret as licensing, conduct and manage, and having a very strong stake in the integrity of the casino management.

I think the ownership of the particular facility is really what is in question, and a liability to the province. I accept and I understand and concur with the fact that in a burgeoning industry one wants to be prudent and one wants to be very careful. Indeed, the decision of the government has been to approach this in a very cautious, prudent way and do one and evaluate it. I think that was the premise behind that decision.

My difficulty is that I think all those protections can

and should be considered in any casino. I don't think, and I hope I wasn't misinterpreted to say, that as we look at this as a burgeoning industry, we should assume we're going to have a strip of casinos. I certainly don't have any reason to believe that would be in anyone's interest at this point, that one would open up, like a gold rush, thousands of casinos in Ontario. I don't think we're talking about a hysteria or a frenzy of building. I certainly didn't intend that.

But I am saying that one can incorporate all those concerns in the arrangements one is making to build and different forms of partnership; and that if the government decides to expand casino operations, if one wanted to establish a partnership, if one wanted to operate—and I don't know that a government of the day wouldn't decide that in some circumstances it might be useful for the government itself to be involved in operation of a casino; there's nothing to preclude a government of the day from deciding that—an indemnification clause may not be appropriate.

That's really what I'm addressing my comment to. Indeed, the signal is not just on casinos. If we are saying to companies coming in to make major capital investments in the province, "If anything goes wrong, you're responsible," would one want to do that for any capital investment? Perhaps you'd say yes, but would you want to ensure that in all legislation we're looking at, that every time there's some involvement with the private sector you would want indemnification clauses in legislation? I think that's really what my concern is. Whether or not you want that in your individual dealings in contractual terms is one thing; to enshrine it in legislation may be another.

The Chair: Mr McClelland, you had indicated you wanted to—

Mr McClelland: Just a brief comment. It seems to me, in reflection on what the deputy is saying, that I think it would be entirely appropriate, if there was a major policy shift of a government to get into the business of operating, at that point in time to introduce a legislative amendment that would effectively change an indemnification clause in light of the fact that the government had a major policy shift.

In light of the stated policy of the government, the plans as set out, I don't accept that by introducing an indemnification clause in one particular bill—I think the specifics of this bill and the circumstances it relates to are focused enough that you are not effectively opening up a precedent with respect to all other contractual obligations entered into with the government.

I simply wanted to respond to that one point, that I would not see that as an impediment, in my view, and that's all it is, my opinion, to putting into the legislation an indemnification clause as proposed; with the very real possibility, if it should come to pass, of changing that, addressing it at that point in time with a relatively

straightforward amendment. I'd rather err on the side of caution in this one.

The Chair: Mr Eves, did you want to make a comment?

Mr Eves: Am I hearing that if there was such an operational loss, it's your view that the province of Ontario and the taxpayers of Ontario pick up the loss?

Ms Wolfson: Absolutely not; absolutely not.

Mr Eves: Then who would be picking up the loss?

Ms Wolfson: The operator, absolutely.

Mr Eves: Then what's the problem with putting it in the legislation?

Ms Wolfson: I don't want to repeat myself, but—

Mr Eves: No, I heard what you had to say.

Ms Wolfson: —I think in certain partnerships, I don't know that the government wouldn't want to operate in a different way, that there might be a different form. In the way we're envisaging it at this point of time, there'd be no question that in contractual terms any loss would be covered.

Indeed, in response to whether or not companies want to come and, under those very, very strict terms, put, to use your number, \$250 million down to build an operator casino, I can tell you, they certainly do. They understand very clearly about that operating loss. No, Mr Eves, indeed I do not see the government taking that responsibility on itself.

Mr Eves: Fine.

The Chair: Mr Phillips, you wanted to speak?

1220

Mr Phillips: I'm having trouble communicating with the deputy, because I never said thousands. I said I visualize what the government has said, and that's eight or nine of these casinos, \$250 million, and I believe that several of them will be white elephants. I cannot for the life of me understand why the government has a problem enshrining in the legislation this principle, because the last thing I think the public wants—they have enough trouble with casinos anyway. They accept that the government wants to proceed with it and views it as a gold mine, but I think the public wants to protect itself from being on the hook for the white elephants that come down the road.

We're going to set up an arm's-length corporation that will have the responsibility for approving these things out of the reach of legislation; I don't think there's any agreement that we're even going to see the contracts right now. If this is a principle, which I think it should be, that the public's not on the hook for the losses of these things, I think it should be clearly in the legislation so we don't have to be constantly looking over our shoulders to find out what's the latest contract schedule the crown corporation has entered into that may violate the spirit of what we're trying to do.

Mr Carr: Mine is more a statement rather than a question. What you seem to be saying—maybe you can confirm it, and if not, I'll ask it as a question—is that if this passes, that will then affect the negotiations, from our standpoint, negatively. In other words, if this motion goes through, you seem to be saying that the people who are coming in to bid on this would look at it negatively and that it may affect how well we do in the negotiations. I'm saying "we" from the Ontario government side. If this passes, do you see this affecting the negotiations negatively from our standpoint?

Mr Alfieri: No. I think everything that is reflected in this amendment has reflected our approach to the existing Windsor development. All the dialogue we have carried out before and during the RFP information process and our review of the various bids reflect exactly this kind of approach. Whichever partner we select, the responsibility of that entity will be to finance, design, construct, operate etc. We will receive the tax of the revenue and they're fully, completely responsible for everything. They'll be required to put up 25% of their own equity towards the physical plant construction. By the way, in all the bids we have received there is absolutely no suggestion that the government in any way, shape or form participate in any losses; many of them are taking the completely reverse approach. This does reflect everything we have been moving towards from the RFP onward.

I think what concerns us is not for Windsor. It's just the optics of the message it sends not only to the casino industry but perhaps to other industries. There are many ways to conduct good business practices. One is to enshrine it in legislation; another one is just to do it. The fact that we have done it in Windsor would tell me that our intent would be to continue to do that.

But one cannot quarrel or argue with the intent of the amendment. As I said, it's very much in keeping with our practice. As to whether it's a good thing to enshrine in law or a bad thing, all we can do is comment on it and it's up to you as legislators to really address that.

Mr Carr: What I get out of this is that if all the bidders know they're going to be responsible and that doesn't seem to be a problem, the reason you're looking at doing this is because at some point in time you want to leave the option open for the government to run it. Quite frankly, that scares me more than anything else. I know Mr Upshaw came through here and said that's the way it should be done.

I know you're anxious to reply, but very briefly, it appears to me they will have contractual agreements saying they'll pick up the debt anyway, but you want to keep it open and you don't want to have anything in the legislation that would prevent you, once these get up and running, from turning them completely over to government-run and at some point in time you taking it over. Is that the major concern, that this will block any

government from running the casino itself?

Ms Wolfson: Two major concerns: I am not concerned about Windsor casino and the government having any liability, because it's built into that arrangement and there has been no indication from any of the proponents that they would pursue anything other than that. I am looking at the legislation as a document that could incorporate other projects should the government of the day decide to do so; we don't know all the models that would be available. I think one can accomplish exactly what the concern is in the way we are doing it and not preclude other models which might in fact be limited because of it.

I appreciate Mr McClelland's comment that you could always amend legislation. Indeed you could, that's an option, but I am suggesting, as we look at legislation and try and build in the kind of checks and balances, that they are there without a legislative amendment. That is really my only concern about it. I don't think it hampers any prospective bidder now.

The second issue is the message. If we are asking people who are coming in and investing \$250 million, let's say, if we are sending a message about building a casino and saying, "And if it goes wrong, you're responsible," I'm not sure I see that differently from other investments in the province.

Mr Carr: But you've just said you're giving them that message anyway, because you said you're going to build into it the fact that they're going to be responsible.

Ms Wolfson: To these operators, but I'm saying the message that goes out in terms of "Come to do business in Ontario."

Mr Carr: Well, the same message goes out to the rest of the people —

Ms Wolfson: No, that's the casino. Enshrining in legislation I think is sending a message about doing business generally in Ontario, as opposed to an operator who's coming in to do a contract with you, "You are going to be responsible."

Mr Carr: One last point, and this is just a comment. As Mr Phillips said, I know your intent was to try to come here and alleviate fears. You made comment that you didn't want to come here and talk, but you essentially have made me even more reluctant, and I think this motion is something that should be passed more than ever. I'll obviously be supporting it.

The Chair: I just thought I'd let everyone know that at some point in time we will take an hour for lunch; there is fresh tea and coffee here if anybody would like some.

Mr Kwinter: I have to say that we are not only getting a mixed message from both the assistant deputy and the deputy, we are getting a mixed-up message. On the one hand you say it's not a problem, that all the

proponents are certainly aware, and there's no intent whatsoever to have the government or the people of Ontario pick up any of the downside, that proponents are coming forward and volunteering to pick up any downside; there's no problem at all. However, the other side is that if we put this in the legislation, we are concerned about the optics, we're concerned about the message that is going to go out.

Let's start worrying about the optics and message that's going out to the taxpayers. If you say this isn't a problem and you say you totally endorse everything in it except the optics and the message it's going to send about Ontario, that doesn't make any sense; it absolutely doesn't make any sense. It's either a problem or it isn't a problem. It can't be no problem but a problem. It can't be, "There's absolutely no problem, we agree with it, absolutely that is going to be the policy of this government, but the optics that it sends out are negative."

1230

I don't understand that. I would love to have some explanation of why it is a negative perception. I again suggest to you that without it, and the mere fact that it has been raised, it will send a very negative perception to the taxpayers of Ontario that somehow or other there is the possibility of a loss, a shortfall. Everybody acknowledges that, but we can't talk about it because of the optics. It just doesn't make any sense. Either this is a valid argument—and you admit it is; you admit that this is a governing principle behind your negotiations, that under no circumstances will the government and the taxpayers of Ontario be subject to any shortfall if it occurs. On the other hand, you don't want it in the legislation because the optics are such that it could have a negative impact on the proponents who are coming forward. It just doesn't make any sense and I would welcome an explanation of this two-sided point of view.

Ms Wolfson: I'm sorry if I'm being convoluted. Let me try again. I am not concerned about our being able to build into the model that we have now proper protections. I am concerned that there may be models—the partnership model: It may be that the government wishes to enter into a partnership where an operator isn't seizable for an operator to indemnify the government, that they don't wish to enter into a partnership but it makes sense to enter into a partnership. I'm thinking as well potentially of partnerships with first nations. I'm thinking that we may have situations where to enshrine in legislation a specific liability on the operator may not allow for those kinds of partnerships and sends a kind of message that we're not interested in various other types of partnerships.

My lack of concern about this one is that I think we can build in the same protections, and we acknowledge their import and we will build them in.

The difficulty is, do you preclude and do you send a

message that we're not interested in any other kind of partnership, where an onus in legislation that says the operator will be responsible for all losses may not reflect the wishes of the government at that point? Indeed, this comment about sending a message, that's one part.

The second message is, I'm not sure I understand why with casinos and this kind of investment it would be that much different from sending the same message to the business community that is going to come in and invest another \$250 million on another project. We don't say in other legislation, "You'll be responsible for all losses." We allow contracts with those investors to deal with who should bear responsibility for losses.

I don't know if I'm being any clearer, Mr Kwinter, but that's what I'm trying to address.

Mr Kwinter: What we have here is a situation, if I could put it in the vernacular, where the government is gambling on casinos. We went to Windsor and people are walking around saying, "We're gambling on casinos." This is what you're doing. You're gambling on casinos.

Usually, when you go into a gambling establishment, the odds are in favour of the house. The more people gamble, the more money the house makes. It's just a mathematical certainty; the only problem you have is that they make it in that particular pot, but they may be losing it in several other pots in the operation of the facility and the taxes they pull out and everything else. But there is no question in my mind, and it's proven mathematically, that in any gambling game where there's at least a minimum amount of volume, the house will always win. The odds are set up that way; they can't lose. The more you play, the more money you lose. It's as simple as that. You get winners, but overall, where do you think this \$128 million or \$140 million of your 20% win is coming from? It's coming from the losers; otherwise, you wouldn't get your money. You get your money that way, so you are in fact gambling. You're gambling that this is going to be a successful operation.

It would seem to me that you have an obligation to the taxpayers of Ontario once you embark on this gamble that, "This is something we are going to support because we feel it's going to create jobs, it's going to create a new industry, it's going to create economic activity," all of these wonderful things that all of us hope will happen. But in the real world, it's possible that it won't happen.

I really don't quite understand. I don't care what kind of arrangement you have in the future. Whether you get involved in first nations, whether you get involved with the government running it, somewhere along the line, if it's going to fail, it will fail regardless of who the participants are, and it doesn't make any difference what that relationship is. The only thing that will make a

difference is that in your relationship you may have to enter into an additional contractual agreement, for example, to use your analysis of the first nation, to say, "We're going to work on this arrangement, but don't worry; we will indemnify you if there are any losses," which has nothing to do with the fact that the operator shall indemnify the government.

You may make that decision as the government that you are going to be the operator and you're going to make the political decision that you will also provide that indemnification, but I can't foresee any possible model or combination where there isn't going to be an operator. I don't care whether it's the government, I don't care whether it's an amalgamation of charities, I don't care whether it's the first nations; somewhere along the line there is going to be an operator, and when that operator takes responsibility for the operation it is at risk that maybe this operation will lose money, and somebody is going to have to pick up that shortfall. It could be the charities themselves, it could be the first nations or it could be the government.

But considering the fact that you have acknowledged that you have no problem with what is stated in the amendment other than that you don't want to see it in the legislation because of the optics—that is exactly what Mr Alfieri said, and I challenge you to take a look at Hansard to see that that is what he said.

I'm saying to you that I am more concerned about the optics for the taxpayer than I am for the optics of the proponents or the potential investors. What I would like to suggest is that if you have no problem with the intent of the amendment and if it's exactly what the intent of your particular initiative is, I still don't see how you can have it both ways, to say, "There is no problem, all the proponents understand that, but we don't want it in the legislation because of the negative message it's sending out" or the optics. I would like an explanation on that.

Ms Wolfson: The only thing I want to clarify, Mr Kwinter, is the issue of optics. As the deputy minister, I am not concerned, and I don't think Mr Alfieri is concerned, about the optics of not having the people of Ontario understand what's in the legislation, and we're not avoiding having the people understand exactly what the industry is there for.

I just think there is a better way of doing it, that we can accomplish it without enshrining in legislation what might be very cumbersome. I think you've set it out quite well, Mr Kwinter, that there might be situations where the government would have to indemnify an operator that had indemnified through legislation the government, and there may be situations indeed that are exactly like that. I just think it's cumbersome and difficult to manage conceptually, but it's not a question of the optics of trying to convince the public about casino operations. That's clearly not what the civil service would be putting forth as a reason for our view

on legislation.

The Chair: At this point, I'd like to let you know that there are two more people who would like to make some comments, and I sure appreciate you being here. Mr Sutherland is one; Mr McClelland is the other.

Mr Sutherland: If we look at the actual amendment and then at a hypothetical situation, let's say in the future the government wants to get into a 50-50 partnership in operating some type of casino. Let's say, though, that it's not going to make money in the first year because of startup costs. If you read what you have in the amendment, it says, "and furthermore that the corporation shall not assume any debt or liability resulting from the operation of any casino." You're trying to be in a 50-50 partnership, yet if in the first year the casino did lose money because of startup costs, you'd be saying the government wouldn't assume any of those debts or liability. Well, who would go into a partnership in that way? I can't see anyone who'd go into partnership saying, "Okay, in the first year I'm going to assume all the liability for any of that." When you look at it that way, it would seem that that's where this amendment limits those types of opportunities over the long term, whereas you may want to negotiate certain things to protect them.

Mr McClelland: One comment and one question. I'm going to ask the parliamentary assistant this; I think it's only fair, as the political level. If the government has made a decision or is contemplating moving towards government-run casinos, in light of the submissions made by his good friend Mr Upshaw and others, I would ask him to come forward and say so right now, say that's part and parcel of the plan and that the government is contemplating doing so some time in the future. That's by way of question to the parliamentary assistant.

By way of question to the parliamentary assistant and/or deputy and assistant deputy, I'm wondering, and I'm going to be very candid about this, whether you have entered into negotiations with first nations representatives and have suggested to them or implied in any way that they will be given some latitude and that they will not be held responsible for operating deficits, so that that has become an impediment for your proceeding with this particular amendment.

Ms Wolfson: I can answer the second part. No.

Mr Duignan: And to the first question, no.

Mr McClelland: Well, in light of those answers, I would again say, as has been very well said by everybody on this side, then wherein lies the problem with this amendment?

The Chair: If there's no further discussion, I want to thank Ms Wolfson and Mr Alfieri for coming before the committee today.

Mr McClelland: Can we vote on this, Mr Chairman,

please, before we adjourn?

Interjection.

The Chair: Mr Duignan has asked for a five-minute recess. I was going to suggest that we have the vote when we come back from lunch, but if you want to vote now, we're going to have a recess because it's been requested by the government.

Mr McClelland: Two o'clock's fine.

The Chair: You want to come back at 2? Fair enough. If no one's in disagreement with that, the committee will resume at 2 pm this afternoon.

The committee recessed from 1244 to 1413.

The Chair: The committee will come to order. We were, just prior to leaving for lunch, about to vote on the Liberal motion, subsection 13(3).

Mr McClelland: Mr Chairman, with your indulgence, I'd like to withdraw my previous amendment and enter another amendment. I want to indicate that legislative counsel, Mr Wood, made some suggestions that bring the amendment more in keeping with proper draftsmanship, and I therefore would withdraw the bill—

Mr Duignan: The motion.

Mr Sutherland: You can't withdraw the bill.

Mr McClelland: Withdraw the bill? Actually, that's not a bad idea. Do the rules allow that? All in favour of withdrawing the bill? Sorry, Mr Chairman, that's your job.

Having withdrawn my previous amendment, I move that the bill be amended by adding the following section:

"Liability for casino operation

"6.1 All contracts entered into between the corporation and an operator of a casino shall be deemed to contain provisions stipulating that,

"(a) the operator shall be solely responsible for an operating deficit; and

"(b) the corporation shall not assume any debt or liability resulting from the operation of the casino."

Mr Chairman, I'll table a copy of that with you.

The Chair: The clerk has one, Mr McClelland. Does this require further explanation?

Mr McClelland: No. As I said, Mr Wood very kindly cleaned up my drafting, and I appreciate that very much.

Mr Kwinter: Mr Chairman, could the record show that Mr McClelland is cleaning up his act?

The Chair: The record can certainly show that he's trying to change it.

Understanding that Mr McClelland has withdrawn the motion we were debating prior to lunch, that means we will be dealing with section 13, unamended, of the bill. Is there any discussion on section 13 at this point in

time? Seeing none, shall section 13 of the bill carry? Carried.

Mr McClelland: I think there's some confusion, Mr Chairman; I went through that hastily. In terms of where it fits in the bill, it's a different numbering sequence. We had drafted it as an addendum to section 13, but legislative counsel's advice is that it fits more appropriately in terms of just the numbering sequence, and we'd then revert back, as an addendum section 6.1.

The Chair: We need unanimous consent in order to go back.

Mr Sutherland: Mr Chair, just for clarification, did you just ask whether section 13 carried?

The Chair: Yes.

Mr Sutherland: And that was section 13, unamended, carried?

The Chair: Yes.

At this point in time we need unanimous consent—

Clerk of the Committee (Ms Tonia Grannum): No. This is not an old section; it's a new section.

The Chair: Oh, we don't need unanimous consent. This is a new section of the bill but will be titled 6.1.

We will deal with that forthwith. Is there any discussion with regard to this new section that Mr McClelland has entered as Liberal motion 6.1?

Mr McClelland: Certainly from our point of view, the discussion preceding the adjournment at lunch covered the waterfront on that matter. I think Mr Kwinter and Mr Phillips have more than adequately and very ably articulated our position with respect to the amendment.

The Chair: Does every member of the committee have a copy of section 6.1?

Clerk of the Committee: It's being copied.

The Chair: I would suggest, because this is being copied at this time, that we continue at this point and revisit your motion, Mr McClelland, when we have copies of that motion for all the members to see.

Mr McClelland: Might I ask that we deal with it as expeditiously as possible? I think we should do it as quickly as we can following the discussion.

The Chair: We are dealing with a new section, PC motion section 15.1 of the bill; this is an amendment to create section 15.1.

Mr Carr: I believe copies have been distributed.

I move that the bill be amended by adding the following section:

"Investigation by Provincial Auditor

"15.1 Upon the request of the Provincial Auditor, the corporation or any business established by the corporation pursuant to section 4(d) shall ensure that any person with whom it has entered into a contract to provide for the operation of a casino or business shall

make available immediately to the auditor all reports, accounts, records and other documents in respect of the operation of the casino or business that the auditor requests.”

It's fairly simple. It is ensuring that the Provincial Auditor has access to the casino operation and that all the records and documents be available to the auditor and that the auditor would be able to request it.

1420

Mr McClelland: I might add, parenthetically, that I appreciate the forthrightness of the parliamentary assistant and the opportunity to meet with him privately to discuss in candour some of the possibilities with respect to amendments. At that time it was indicated by staff that in fact the auditor has jurisdiction. I hope Mr Eves will return shortly; I'm always reluctant to pass on information secondhand. Mr Eves advises me that from a discussion with the auditor this morning, the auditor does not share that opinion and that, absent legislative provision, he does not have the access and latitude that staff indicated.

I say that not to be contentious but simply to indicate that it is an issue. I regret that I'm in the position of trying to pass it on on behalf of Mr Eves, simply because I don't feel I can give full hearing to his information. I trust he may be here shortly, but I did want to indicate that. I think it's important. The parliamentary assistant, I note, wants to respond. In fact, there is a significant difference of opinion.

Mr Duignan: As you know, the Provincial Auditor can't go to private businesses. However, with some slight change to the wording of the motion, it could be acceptable. I will get Ms Korey, legal counsel, to address some questions around the Audit Act.

For example, if the motion read, “The corporation shall ensure that any person with whom it has entered into a contract to provide for the operation of a casino or related businesses shall make available immediately to the corporation all reports, accounts, records and other documents in respect of the operation of a casino or related businesses that the corporation requests,” in that way, the auditor has full access to the corporation.

Mr Carr: As I read it, it's essentially the same. It's just some of the wording.

Ms Audrey Korey: If I might address that for clarification, the reason for that is that under the Audit Act, the Provincial Auditor has jurisdiction to watchdog, if you like, all ministries, crown corporations, agencies, boards, commissions etc. If it's in the hands of private operators, he can't swoop down on a private operator and take all kinds of documents. However, he can do this with respect to the corporation and has in fact very broad powers: He can do investigation audits; he can examine people under oath; he can do all kinds of things under the Audit Act. By ensuring that the corpor-

ation holds all these records, I think, and I'm certainly happy to give you a copy of the Audit Act with the highlighted portions of it, it will achieve what you're suggesting, that the Provincial Auditor is able to have access to all these records and to make sure that everything is correct in the operation of the casino, which I take to be your objective.

Of course, the corporation would intend to do this under contract, in any case, but if you wish to have it in legislation—I'm only providing some clarification.

Mr Kwinter: Mr Chairman, I have a couple of concerns. One is just a matter of form. If this motion is in order and there isn't a provision now for the auditor to do it, it would seem to me it would be a more appropriate place to put it in section 14 rather than in section 15, because if you take a look at section 14, you'll see:

“The corporation shall establish and maintain an accounting system satisfactory to the Minister of Finance.

“The board of directors of the corporation shall appoint one or more auditors licensed under the Public Accountancy Act to audit the accounts and financial transactions of the corporation annually.”

Mr Duignan: We agree, Monte.

Mr Kwinter: Why give up so easily? I'm just getting into it. Okay, so you agree with that; that's fine.

The second point: I'm not a proponent of the motion so I don't know the intent, but reading it and reading what I think is between the lines, it would seem to me, and I would ask that my colleagues who proposed it maybe expand on it, that the purpose of this amendment is to make sure that the proponent, as it relates to the casino, is subject to the public auditor's jurisdiction. Not the corporation; I think that's a given, that under the Audit Act the corporation can be audited.

I think the purpose is that if there are allegations that the successful proponent, whoever that may be, is somehow or other doing things that are inappropriate, they may file with the corporation documents that the auditor has access to, but they also may not file documents with the corporation that the public auditor may have some interest in, and it would seem to me that the purpose of this motion is to provide in the act that the public auditor has access to the proponent and the businesses related to the casino, notwithstanding that he normally might not have access to them. Is that a fair evaluation of what you're contemplating?

Mr Eves: Yes. If I may expand on that, we had discussions with the auditor's office and with the auditor himself. He indicates that he does not, and gives two examples where he has been prevented from auditing a joint venture corporation, one being Teranet and one being IDEA Corp. I don't want to put words in his mouth, but the gist of what he's saying is that he

has been prevented from auditing both of those joint venture enterprises before. In the government's opinion—whichever government it happens to be; I'm not blaming the current government. I'm just saying that he has been told he does not have the authority under the Audit Act to audit joint venture corporations such as Teranet and IDEA Corp.

If you want the ability to audit a corporation that's operating a casino as a joint venture with the province of Ontario, you need to enshrine that in a particular piece of legislation. I think that's what Mr Kwinter is also alluding to. That is the purpose and the intent of the amendment. This is my poor draftsmanship, not anybody else's, and if counsel or anybody else can assist us in achieving what we want to achieve, that is the intent. I think Mr Kwinter's hit it right on the head.

Mr Duignan: I had actually made a suggestion to Mr Carr about changing some of the words of the motion.

Mr Carr: Do you want to read it back?

Mr Eves: I'd like to ask counsel if, in the opinion of counsel, the wording that is now being suggested would give the Provincial Auditor the authority to do what Mr Kwinter and I have enunciated.

The Chair: Then at this point it would be necessary to withdraw the motion as it was introduced and for Mr Eves to reintroduce the motion with the appropriate language. We need unanimous consent to open section 14, to introduce it into that section of the bill.

Mr Eves: I'd first like to get the opinion from counsel about how the section should be worded to achieve what we want to achieve. If it would please the committee, I would ask that we stand this one down, if we haven't got the language right now, until such time as we can arrive at that.

The Chair: I don't think that presents a great problem. We can have that looked after, I suspect, and go back and deal with Mr McClelland's motion which he has previously introduced.

Mr Sutherland: Mr Chair, as Mr Eves wasn't here, maybe Mr Duignan could repeat the wording he had put forward before. That may help.

The Chair: Have you seen the wording, Mr Eves?

Mr Eves: I have.

The Chair: Maybe Mr Duignan can repeat it one more time for the record so that Mr Eves will be clear as to what the new language is.

Mr Duignan: It would still be the heading "Investigation by Provincial Auditor."

"The corporation shall ensure that any person with whom it has entered into a contract to provide for the operation of a casino or related businesses shall make available to the corporation all reports, accounts, records and other documents in respect of the operation of the

casino or related businesses that the corporation requests."

That way, the auditor has full access to those records, to the crown corporation, because normally the public auditor has no access to the records of a private company.

1430

Mr Eves: That says "shall make available to the corporation." It doesn't say "shall make available to the auditor." I'm not saying it's the wrong language; I'm asking counsel for an opinion on whether this will enable the Provincial Auditor to do his or her job, if he or she requests.

The Chair: Mr Wood or Ms Korey?

Mr Michael Wood: I assume, in asking the question, Mr Eves is directing it to me as legislative counsel and counsel to the opposition parties for motion purposes. I'd have to say initially that certainly the motion, as it is worded, only allows the corporation to get access to the reports, accounts, records and other documents. I would then have to take a while to look at the Audit Act, which I don't have with me here, to see whether those records would form part of the records that the Provincial Auditor can have access to when they're in the hands of the corporation.

I do know that the Provincial Auditor has access to the books, records etc of the corporation itself. I wouldn't want to give a firm opinion as to whether the Provincial Auditor has access to the records etc of any contractor, if those documents happen to be in the hands of the corporation, till I had a chance to look at the Audit Act provisions.

Mr Carr: I'd like to ask the parliamentary assistant his intention. Is that why you worded it like that, so the auditor—

Mr Duignan: So the auditor could have access to that information.

Mr Carr: That's the legal opinion, then?

Mr Duignan: That's the opinion of our counsel. Maybe Audrey would like to elaborate on that.

Mr Carr: You're going to be in great shape. You won't need fitness classes after this.

Ms Korey: I missed the last part.

Mr Carr: Is it the government's understanding that the auditor can request and get all the information he or she needs? We're just asking why you worded it that way.

Ms Korey: I am just looking at the Audit Act to get the actual section or subsection for you on it. Once it's in the hands of a crown corporation, where the accounts and financial transactions of a crown corporation are audited by another auditor than the Provincial Auditor, the audit, according to the Audit Act, shall be performed under the direction of the Provincial Auditor and

such other auditors shall report to the Provincial Auditor. Then there's a variety of ways that the Provincial Auditor can get the information out of the crown corporation. I'd be happy to make this act available to you, Mr Eves or Mr Carr.

Mr Eves: What I'm very directly asking is whether or not this amendment, worded that way, is going to get the auditor around the problem that he says the Provincial Auditor's had in the past with Teranet corporation and with Idea Corp, both of which the Provincial Auditor, according to him, was prevented from doing his audit on. Because they were joint venture companies, it was decided they did not fall within the parameters of his scope of investigation.

Ms Korey: No, Mr Eves, I don't believe the amendment as proposed by your wording would do so either.

Mr Eves: That is what I'm asking; I don't profess to be counsel so I am asking counsel.

Mr McClelland: That's why he ran for office.

Mr Eves: Maybe I should have had the Provincial Auditor draft the amendment.

The Chair: Do you want to stand this down till we can get some clarifications?

Mr Eves: That would be more appropriate, I would suggest.

The Chair: Consider this motion stood down. I just remind the committee that we have to have unanimous consent to re-enter this section of the bill. The appropriate section, as Mr Kwinter has indicated, is section 14, so we'll have to have unanimous consent from the committee to do that, but we'll do that at that point in time.

We should move back now to Mr McClelland's motion, which he introduced a short time ago, subsection 6(1). He's introduced it and given an explanation. At this point in time, I suspect we should probably hear from Mr Duignan with regard to this.

Mr Duignan: I think everything that's to be said has been said on this.

The Chair: If there are no further comments with regard to this, then we can vote on this motion.

Mr McClelland: Recorded vote.

The Chair: Yes, a recorded vote. All those in favour of the motion?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips (Scarborough-Agincourt).

The Chair: All those opposed?

Nays

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: The motion is lost.

That brings us to section 16 of the bill. Our first motion is a PC motion, subsection 16(1). Mr Carr or Mr

Eves, would you care to introduce this motion?

Mr Eves: I move that subsection 16(1) of the bill be amended by striking out "nineteen" in the first line and substituting "twenty-one".

This is the other section in the bill, of course, that provides for an offence with respect to age. We've already had the debate with respect to age at one point in time. You may or may not choose to rule this out of order, Mr Chair, but we still feel strongly about the age issue and we're moving this amendment.

The Chair: It would be out of order because we've already dealt with the issue earlier in the bill, so it would be inconsistent with what's already taken place.

Mr Eves: Mr Lessard wouldn't like to reconsider his opinion?

Mr Lessard: No, I support it for the same good reasons as the last time.

Mr Kwinter: Are we still discussing section 16?

The Chair: Yes, we are.

Mr Duignan: Subsection 16(1).

Mr Kwinter: Subsection 16(1) or 16(2), it all pertains to my same concern. Having regard for some of the comments that were made by legislative counsel, it would seem to me that there should be an additional expansion of the definition of a casino.

When I look at section 16, and subsections 16(1), 16(2), 16(3) and 16(4), which we haven't gotten to, it talks about "Every individual under nineteen years of age who plays a game of chance in a casino is guilty of an offence." It keeps talking about the things that you can do in a casino, but it doesn't define that the casino is not the casino complex. It would seem to me that there may be some problems in the enforcement and in the interpretation of this act unless it is clearly spelled out that a casino and a casino complex are not the same thing.

Let me give you an example of what I'm talking about. This came up in our discussions yesterday. This facility is going to be built, and it will have a hotel, it will have restaurants, it will have bars, all of these things that will, to all intents and purposes, be one building. Within that building, there will be a casino, as we understand it.

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It would seem to me that the provisions as contemplated under this particular section deal only with that particular room that is a casino, but there are other areas that are under regulation by the liquor board and things of that kind, and when you get involved in determining whether someone is in breach of whatever regulations are in place, you may have the problem that people will define, "You are not in the casino; you are in the casino complex," or, "You are in the casino complex and you're not in the casino."

I think there should be some explanation of that to save a lot of hassles, because someone is going to take a look at the act and is going to say, "It says here that I can't do this in a casino, but I'm not in the casino; I'm in the casino complex." But there's only going to be one door to both the casino complex and the casino. Someone is going to enter on those premises and is going to be able to do certain things in part of that building and certain things in another part of the building, but he cannot do everything in all parts of the building. There is no reference to that at all, and it would seem to me that could create a problem in the future.

Mr Duignan: Under section 1 of the act, "casino" is defined as "a place which is kept for the purpose of playing games of chance." The Legislature is sometimes referred to as the pink palace that's across the road, but we all know that it's the chamber that's the Legislature.

Mr Kwinter: The legislative precinct is the whole building.

Mr Duignan: Actually, part of the Whitney Block as well.

Under the purpose of this act, "casino" means a place where people are actually playing the games of chance.

Mr Kwinter: You've actually just made the point for me. Your interpretation is that the Legislature is only that chamber in which we sit, but in effect the legislative precinct is the whole building and the immunity that you have as a member extends to your offices in the Whitney Block and extends to the offices in the so-called pink palace. That is exactly the point I'm making. In your mind, you think that the Legislature is only that part where we sit, when in fact it isn't. I'm saying that people are going to have exactly the same interpretation when they walk into this casino.

You're going to split hairs and say: "You're in the casino complex, but you're not really in the casino. The casino is only that room where they have the gaming taking place." You're going to have people who will fall under two or maybe more regulations, depending where they are in that building, and there is no definition in this act to spell that out.

Mr Duignan: We're saying, "Every individual under 19 years of age who plays a game of chance in a casino is guilty of an offence," but what we're talking about here is the gaming area in the casino. That's where the games of chance are played. What we're saying is that if someone is caught under the age playing a game of blackjack in the gaming area, he or she will be committing an offence.

Mr Kwinter: That will apply to subsection 16(1), but there are other provisions under 16 where that would not apply, and that is the concern I have. Not just looking at 16(1), but if you look at some of the other provisions, there are references to the casino and what

you may or may not do, without reference to the fact of playing. Just by being in a place or just by being there, you have a problem.

Mr Jim Mundy: The bill defines "casino" as "a place which is kept for the purpose of playing games of chance." People may refer to that building, that complex, as the casino, but at law the casino is that gaming floor, not the hotel, not the bar and not the restaurant. While there may be confusion, as we just heard, in people's minds about what is the casino and what isn't, it's fairly clear in the act that the casino is the gaming floor, the "place which is kept for the purpose of playing games of chance."

Mr Kwinter: With respect, let me just repeat one more problem I have and the reason I feel there should be a clarification.

You say that the bill, under section 1, defines that "casino" means a place which is kept for the purpose of playing games of chance," and we've just heard what that is supposed to mean. The average person walking in off the street, the average employee, the average security guard who may be hired on an interim basis—the rent a cop kind of thing—the minute they enter those premises, in their minds they are in a casino. They are not going to differentiate, "Well, you're not really in the casino yet until you walk into the gaming room." The minute you walk into the building, the Windsor casino, you walk in the doors and you say, "I'm in a casino." A security guard is there and he's been put in there for the day and he's been given instructions. There are provisions of things that cannot be done in the casino but they can be done in the hotel, they can be done in the restaurant, they can be done in the things that are in that casino complex. My contention is that a reasonable person would not know there's a difference when they walk into the Windsor casino, that you're not really in the casino until you enter the gaming rooms.

I think there should be a provision in the act so that this doesn't have to be fought out at a later date as to, what is a casino? You say, "Well, you go to the act and it says it means a place which is kept for the purpose of playing games of chance." I contend that there could be an interesting legal discussion as to whether or not that is the whole complex, because that is a place where there are games of chance. You can say: "Oh no, only in this room. We've got a surveyor and the surveyor has said, 'This is the spot only.'"

When people walk into a casino they think they're in a casino, and to suggest that they have to know they're not really in the casino until they walk into that room that has the games of chance is asking a reasonable person to do more than I think is reasonable. Given the fact that it is quite possible for somebody to be able to do things in the casino complex that they can't do in the casino, I feel there has to be a provision somewhere in the act, without going to a judge to get their adjudica-

tion, that spells that out.

The Chair: I'll just remind committee members that we are dealing with section 16 of the bill. Mr Kwinter has undertaken to open the debate on this section.

Mr Kwinter: I'm dealing with section 16.

Mr Duignan: I thought we were dealing with an amendment.

The Chair: No, the amendment was ruled out of order. We are dealing with section 16. Mr Kwinter indeed asked me, "Are we dealing with section 16?" and I said yes. I just wasn't sure that everybody caught that, actually.

Mr Duignan: The lawyers are conferring again.

Mr Kwinter: Can I give you an example? This is not a hypothetical case; it's a probable case. If we take a look at subsection 16(3), "Every individual who enters or remains in a casino during the playing of games of chance in the casino, is guilty of an offence if, in accordance with the regulations made under this act, the corporation has served a direction on the individual to leave or not to enter the casino." So some guy walks in and, for whatever reason, he's told he must leave the casino. He walks outside the casino facility as defined, supposedly, under this act, and he's standing outside the door of the casino. But he's still in the complex. He won't know this, but in theory he'll say: "You can't throw me out. You can throw me out of the casino, but you can't throw me out of this building because I'm not in the casino. I'm in the casino complex."

It may be the absolute intent of the operators that they don't want him in the building, period. They want him out because of whatever; he may be drunk and disorderly. They want him out of there, and he says: "Listen, I've read my act. I've got it in my back pocket. I know this thing really, really well and I am no longer in the casino."

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All I am suggesting is that it would seem to me that there should be a definition, given the fact that what is contemplated is a casino complex that is going to have things that will fall under the jurisdiction of the corporation, but it will not fall under the jurisdiction of the Gaming Act and these various things. It would seem to me that there should be some definition of what the casino complex is and defines how the casino relates to it, just so you'll save some problems. I thank you very much for your indulgence.

The Chair: Any other discussion with regard to all or part of section 16 of the bill?

Mr Duignan: I think the lawyers are having a discussion.

Mr Michael Wood: I'd like to offer some information to Mr Kwinter in my role as counsel to the opposition parties. In my legal opinion, I really believe that it is clear in the definition of "casino" in section 1 that

"casino" is limited to the place where the games of chance are played and does not include any other place which in popular parlance is associated with the casino because a related business is carried on in that place, such as a hotel or a restaurant which is connected with the casino.

There is one difficulty I would see to opening up this issue; that is, when defined terms are set at the beginning of an act, the whole of the rest of the act is drafted with that defined term in mind. If we try to fix something in section 16, we have the problem of being consistent with the whole of the rest of the act.

However, I'd offer just one further detail of information. If Mr Kwinter does want to do something to clarify the issue, my recommendation would be not to try to do every section where the word "casino" appears and run the risk of being inconsistent, but rather to put some wording into the definitions section in section 1 to make it absolutely clear that "casino," as the defined term is used in this act, includes the place just where the games of chance are intended to be played and does not include areas which are used for the operation of businesses related to the casino.

Mr Kwinter: That would satisfy me perfectly.

Mr Michael Wood: If the committee intends to deal with this, I would be prepared, given a short amount of time, to draft some wording which could form the basis of a motion. The clerk would have to rule on what the requirements would be. I imagine unanimous consent would be required to reopen section 1.

The Chair: Indeed, unanimous consent would be required to reopen section 1, but if it's agreeable with the members of the committee to do that and if it's in the interest of better defining what a casino is, then I will put that question to the committee members.

Mr Duignan: If it's in the interest of plain language, I think we could agree to that, Mr Chair.

The Chair: Mr Wood, would you like to bring back to us a draft of the proper wording and how that might be entered into the bill?

Mr Michael Wood: Yes, given a short amount of time, I would be prepared to propose the wording.

The Chair: We'll leave that for now and we can continue to deal with section 16. Is there any further discussion with all or part of section 16 at this point in time? If there isn't, then we'll have a vote.

All those in favour of section 16 of the bill? Agreed. Section 16 passes.

Now we have a Liberal motion to create a new section, section 16.1 of the bill.

Mr McClelland: That was substantially, if I recall the numbering, subsections (5) through (8), and accordingly I would withdraw that amendment.

The Chair: Thank you. That brings us to section 17

of the bill. Any discussion on section 17 of the bill?

Shall section 17 of the bill carry? Carried.

That brings us to section 18 of the bill. We have a Liberal motion, subsection 18(1).

Mr McClelland: Before I get into it, just by way of explanation, I will be withdrawing (g). I think that's been dealt with on—

The Chair: Wait a second, Mr McClelland, I'm not sure I'm following you.

Mr McClelland: I want to express my thanks to Ms Grannum for her assistance. I'm advised that virtually all of the proposed amendment has been ruled out of order, those clauses dealing specifically with the prescribing of formulas with respect to alcohol prices and occupancy in hotels and seating capacity and so forth. As you will recall, the Ontario Restaurant Association, on both the province-wide and local levels, had some grave concerns, but I'm advised that given the scope of the bill and the limitations, we can't effect those changes.

Clerk of the Committee: You had an alternate motion, the Liberal motion—

Mr McClelland: Yes, there is an alternate Liberal motion counsel has drafted that effectively ties into some of the items that were at least picked up under subsection 6(5). I'd move that now just to give effect to it, recognizing with some consternation that we can't address the I think very legitimate concerns brought to us by the restaurateurs.

I would move that subsection 18(1) of the bill be amended by adding the following clause:

“(a.1) prescribing the method of appointing members to each committee described in subsection 6(5);”

Mr Duignan: That's something we had agreed to.

The Chair: Previously agreed to by the government and the Liberal caucus, and the PC caucus as well? Okay. Shall the amendment carry? Carried.

We have a PC motion, 18(1)(c) and 2(a). Mr Carr or Mr Eves?

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Mr Eves: I would like to withdraw the amendment I have submitted, but I would like to replace it with the following, because I don't think it makes any sense the way it is right now.

The Chair: Do you have it already written out, Mr Eves?

Mr Eves: I just have scribbled it out with my own little hand.

The Chair: Would you be so kind as to read it?

Mr Eves: I can make an attempt.

Clause 18(1)(b.1). I've created an additional clause for 18(1)(b).

I would move clause 18(1)(b.1), which reads as

follows:

“Requiring the corporation to pay to municipalities in which a casino is located a specified percentage of the revenue to be paid into the consolidated revenue fund as stipulated in clause 18(1)(b).”

Then clause (2)(a), my amendment would now read:

“The percentage of revenue prescribed for the purposes of clause 18(1)(b.1) shall not exceed 10% of the revenues to be paid into the consolidated revenue fund.”

The Chair: I think it would be appropriate at this time to have those copied, Mr Eves, for all the members of the committee. While that is being taken care of, I would suggest that because it is part of section 18 of the bill we move to Liberal motion, section 18.1. I've been advised that it is out of order, because it's restricting taxes and it's beyond the scope of the bill.

Mr Eves: You just saved me a lot of writing, Mr Chairman. If I may offer a comment with respect to the intent of the proposed amendment, it was to ensure that municipalities in which a casino is located, be it Windsor or any other future municipality, would share in the revenue that the province would receive, in some small way. My small way was going to be “not exceeding 10% of the moneys” the province would get, as is done in a lot of other jurisdictions in North America.

The Chair: Well, that motion too is out of order. That brings us wholly to section 18 of the bill, as amended.

Mr McClelland: On a point of order, Mr Chairman: I just wanted to have some brief discussion with respect to the proposed amendment, section 18.1. That amendment would have read:

“(18.1) The cumulative rate of all taxes charged on horse racing in Ontario, including but not limited to parimutuel taxation, shall not exceed, in the aggregate, the rate being charged on casino wagering.”

In the wisdom of the clerk and the advice you've been given, that's been ruled out of order. I would therefore only ask that the government members would, through the appropriate channels, submit under the appropriate legislation a like amendment to bring effect to the intent of this legislation, which in short is to put the horse racing industry at least on a level playing field and hopefully give it an opportunity to remain viable and competitive.

In light of the ruling of the Chair and the advice of the clerk, which I accept regretfully, I can only urge my friends in government to do everything they possibly can to ask their cabinet colleagues to move expeditiously to ensure that the horse racing industry is not in jeopardy.

The Chair: I'm sure that's duly noted.

Mr Phillips: On another matter, Mr Chair, just to help me out a little on the percentage of the revenue,

18(2). I assume we haven't yet voted on 18. "The percentage of revenue prescribed for the purposes...shall not exceed 20 per cent." Can someone describe to me what that means? Let me tell you what I think it means and then you help me out. The model that Coopers and Lybrand used was that the win would be 17% or 18% of the bet, if I'm using the right language, and then the government's rakeoff on the win is 20%.

The reason I ask the question is that if down the road we do get into a situation like the one I gather Vegas is in, where the win pot is down to 5% of the bet, you then are looking at the province's take as 1% of the bet. I'd like confirmation of whether I'm right or wrong on those numbers, and then some assurance that the government really wants to get itself in this position here.

Mr Duignan: Clarifying 18(b), this basically allows regulations to be made specifying the amount of win tax to be paid into the CRF, but (2) ensures that it's held to a maximum of 20%, that it's up to 20%. The regulation must be passed before the win tax is due, so it allows the government to go anywhere up to 20% but not exceeding 20%.

Mr Phillips: I understand all of that. My point is, were the numbers I used correct? Does anybody know?

Mr Duignan: I don't think so.

Mr Phillips: Then what were the right numbers?

Mr Mundy: As to this article that everybody's referring to that deals with 95%, with all due respect, there's obviously something missing here. If they're paying back 95% of what's bet, then I'd like to know how the employees are getting paid, how the rent is being paid and how the taxes are being paid. I don't think the suggestion that there's only a 5% win in Las Vegas is what this article is saying, but I'd obviously have to talk to the author on that.

The tax is 20% of the total win. If the win goes down, then it's 20% of a smaller pot. If the win goes up—

Mr Duignan: It's still 20% of whatever the pot is. If the pot's \$100 million—

Mr Phillips: I understand completely. I gather that's what the government wants to do, but if, over time, things occur as we think they will, that is, that the win percentage is going to drop—right now you've got the grandiose scheme of, what, 17% or 18% win, am I right?

Mr Duignan: No.

Mr Phillips: Then what is the number?

Mr Mundy: The win is what's left after the players are paid out. The tax is—

Mr Phillips: I know that. What per cent is the win?

Mr Mundy: The tax is a percentage of that win, whatever it—

Mr Phillips: I know that, but what's the win percen-

tage? What's the plan? Is it 17% or 18%? In the Coopers and Lybrand report, I think 17% or 18% was the number they used. Is that right? Everybody shakes their head. What is the number they used?

The Chair: If you want to participate, you'll have to come to the mike.

Mr Phillips: Who's the expert on this?

Mr Bill Gillies: My name is Bill Gillies, director of communications for the casino project. The win on a given game depends on the game itself. With respect to slots, for example, you have paybacks in the high 90 percents in Las Vegas, 95%, 96%, 97%, the low 90s in other jurisdictions and the high 80s in some other jurisdictions, depending on the competitive pressures. The win on blackjack, offhand, I think is somewhere around 2%; it's very modest. That is the amount in favour of the house.

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The reason the figures are so formidable is that in the course of an evening, obviously, the same amount will be bet repeatedly. Just by way of helping you out, you don't have a number, for example, that you can compare in a casino against the handle at a racetrack. You know how much is bet at a racetrack, but you will never know how much is bet at a casino; you simply can't track the ebb and flow at a given blackjack table back and forth. I offer that as an aside by way of trying to put it in context.

Mr Phillips: The reason I get at it is this: What did the Coopers and Lybrand study, which was funded by the government and designed to give us some economic modelling, use as its win percentage on average for the games? Do you know?

Mr Gillies: I'd have to check the study, but 17% is a new number to me; I'd want to read the study. It strikes me as not correct, but I don't have it in front of me.

Mr Phillips: Does anybody know?

Mr Gillies: If anyone has a Coopers, I'll read it.

Mr Phillips: Okay, I give up.

Mr Duignan: But for the purpose of this act, we're talking about in relation to 20% of the win. Whatever that win is, \$100 million or \$200 million or \$50 million, the province can take up to 20% of that win regardless of what that amount is.

Mr Phillips: Let me give you an example. How does the province determine its take on a horse race?

Mr Duignan: It's 5% of what's wagered.

Mr Phillips: Exactly. Not of what the win pot is, but of what's wagered. Here you are not taking your break on the 20% of the wager; you're taking 20% of the win. I'm just asking, is that a model you want to build into legislation? I gather it is. But if the win pot drifts down—you guys are the experts, I assume, on

what the economic model is, but my memory is that Coopers and Lybrand used something like 17%. That's how they got to the \$850 million take by the province.

You've determined that you will be taking the government's share of it not on what's wagered but on what the win pot is. I'm just saying if the win pot drops, like apparently the Las Vegas article says it's dropped, then you are limited to what the province can take by the dropping win pot. That's all.

Mr McClelland: I think the question was asked, how much is it, and somebody said nobody knows. That's the point. I think Mr Phillips raises a very good point, that there is an assumption made that it would be 17%, and I think if Mr Alfieri were here, he would confirm that, that 83% would roll back in, as a point of departure.

But he hastens to add that this number can be changed. The way you do that, because blackjack and others are subject to a fair degree of chance, is that you can statistically, scientifically control the payout on the slot machines. So what happens is that you look at the payout to make it competitive. That's the whole point I think Mr Phillips is raising, that it's 20% of a number, which number is subject to change, which change will be predicated on the competitiveness of the casino in the draw.

In the event of a casino being built stateside and if it offers a greater return to the gambling public, the win pot for the casino will, in all probability, on the evidence submitted, be lowered. The numbers projected are based on—I don't want to say a best-case scenario, but a scenario that anticipates a 17% win pot. To the extent that that fluctuates, as may or may not happen, the point is that this section says it's 20% of an unknown variable number. That variation, as I understand it, is predicated essentially on the control of slot machines.

I think it's important that the public understand that. Mr Phillips has said, as has Mr Kwinter particularly and others, that this number is thrown out on a scenario predicated on 17%. In fact, it may not be that. My recollection is that we've heard very direct testimony that says that number will change to make the people come and keep rolling the dollars down.

Mr Kwinter: I just wanted to respond to counsel's comment. Before I do that, I just want to state a disclaimer. The article by Gary Becker, who I know by reputation only, was something I happened to come across yesterday by accident. It was in this week's Business Week. I found it interesting and thought it might be interesting to members of the committee.

I have no reason to doubt that a man who has received the Nobel prize is probably not stupid and has probably done his research. I also have no reason to believe that Business Week, a highly respected publication, has checked out its facts. Having said that, it's

quite possible that next week there's a letter to the editor from somebody saying, "With all due respect to Mr Becker, he has made a mistake."

The point I am trying to make is this. There are two very significant figures in his article. One is that in Las Vegas, competition has forced them to pay out 95% of the amount wagered. The question has been raised that that can't be the right figure, because how do you pay for everything else out of the 5%? The way you pay for everything out of the other 5% is quite simple.

Go back to the beginning of the article. Just for comparison's sake, under the model as proposed by the government for the Windsor casino, they say that 20% of the win is going to be somewhere between \$110 million and \$140 million; those are the figures given in the economic projections by the government. If you look at this article, and again I can only take it at face value, Mr Becker states that Nevada receives or earns or collects \$200 million a year from its casinos.

When you compare Nevada to the projected casino in Windsor, I would say it would be on a magnitude of 1 to 100. Las Vegas has got to have a gambling facility that is at least 100 times bigger than what is contemplated in Windsor, and the total take by the state is \$200 million a year.

When you go to Atlantic City, and the article talks about New Jersey, its take is \$314 million a year. Again, compare that with the projections the government of Ontario is anticipating, that its 20% share of the win is going to be between \$110 million and \$140 million, and that is where the difference lies.

The 5% we're talking about in Las Vegas is a huge number. It's a huge number because there is relatively little being taken out of the total pot by the state. Again, I can only take it at face value: It states in the article that it's \$200 million.

That is the issue, and it just keeps piling up the concerns I have about this particular model. They're carving up a pie that hasn't been baked and has every possibility of not even getting the ingredients to be able to start to cook it. It just doesn't make any economic sense because you're in a competitive environment, and if you think you can operate in isolation, if you think we can do it our way because this is the way we want it and not deal with the reality of what the competitive situation is out there, then we have some real problems.

The Chair: Is there any further discussion on section 18 of the bill?

Shall section 18 of the bill, as amended, carry? Carried.

That brings us to section 19 of the bill. The government has some motions with regard to section 19 of the bill. Mr Duignan.

Mr Duignan: I move that section 19 of the bill be amended by adding the following subsection:

"Acquisition of land

"(1.1.) The corporation of the city of Windsor may acquire lands in the casino area for a casino and related businesses."

Basically, the purpose of this amendment is to give the city of Windsor greater certainty in its power to acquire in the casino area. It is the position of the government that Windsor already has the authority to acquire such lands, but this gives it the necessary legislative certainty.

1520

Mr McClelland: Let's cut to the chase on this one quickly. I've had some discussion with officials from the city of Windsor as a result of my expression of concern on this particular amendment. I might add that word got back to them very quickly that I was concerned about this amendment.

The parliamentary assistant says it gives greater certainty to the city for power it already has. I'll tell you the flip side of that, and I want to state very, very clearly on the record my impression of what the flip side is.

The flip side to me is that it removes the potential remedy of an individual and it effectively bars, takes away from pleading a point of reference for a potential litigant. I think it's unwise to get into too many specifics, but I have to ask. It gives a specific power to the city of Windsor for this project to effectively, and I may not be precise in terms of my language, challenge with greater certainty a remedy that an individual may put forward. If the city already has the authority, I would say to the parliamentary assistant, let the city proceed accordingly under the law as it exists.

I'm not passing judgement, and I want to make that abundantly clear. Regardless of how frivolous or vexatious any claim may be or any defence to an undertaking by a city, the power of the state is significant. It seems to me that of all governments, this government would never, in the past, have considered using the heavy hand of government to override a legal remedy potentially available to an individual.

I understand, or I think I do, the potential downside consequences. I don't say this lightly, but when a government starts to say that rights in law of individuals, because they happen to stand in the way, are to be put aside, I think we are on a very slippery slope. I will say to you that philosophically, I cannot in good conscience support this amendment. Apart from the practical implementation and impact that it may or may not have in the city of Windsor, I want to make it abundantly clear that I think the traditions and the rights that individuals have acquired over the evolution of common law, statutory rights that have been given individuals, thoughtfully and carefully and that have evolved, cannot be put aside for the sake of a project

with—I say this candidly—the stroke of a pen and the raising of hands my friends in government would seek to do today.

I think it is a very serious matter when a government says, "The citizens of Ontario be damned because we don't agree with you or you may cause us some difficulty." As I said, if it's frivolous or vexatious, allow the court to so determine and exercise the remedy of costs, as appropriately rendered by a competent court or tribunal, to exercise that authority vested in them to deal with those kinds of claims.

I'm not speaking on behalf of my colleagues, but I personally will not support an amendment, notwithstanding the fact that my Liberal friends in Windsor, and I'm saying this candidly, have urged me, because the government saw fit to advise them that I would be opposing this.

I don't think you can put expediency on the scale with fundamental rights and allow expediency to win. I can't say it any more plainly than that. It may be an issue that causes some difficulty, and yes, it may cost some money, and yes, it may cause some delays, but I want to say that's a small price to pay for democracy. I am not trying to raise this to some sort of esoteric rhetoric. I feel very, very strongly that the power of the state against an individual in a specific case has to be—I don't even want to say "cautiously." I just think you're on such a dangerous, dangerous slippery slope when you begin to do that. The rhetoric that I think would appropriately describe it would I'm sure be seen as being confrontational or inflammatory, so I hesitate to really expand on it because I'm sure it would be seen in that light.

You don't have to look too far, either historically or geographically, to see where governments say, "Well, it's okay, because this situation requires drastic measures," and then it becomes easier and easier for governments to justify the overriding of fundamental legal rights.

Again I say, apart from the practicality of it, that the principle involved herein is of such significance, in my view, that I will vote against this, and I will do my best to make it an issue both in terms of this committee and subsequently in the House, as required.

I'm somewhat constrained, I think, because of the specifics of the case, or the potential case, involved, and the circumstances. I'm trying to be careful and circumspect in my comments because of that. I think it's incumbent on us not to delve into that too specifically. I think most members of this committee know of what I speak; certainly the government members. I know the parliamentary assistant knows exactly of what I speak. The day we begin to do that is a day I will sorely regret.

I can tell you this: I can say with virtual assurance

that every member of the government party would have been outraged and screaming, and the leader of this government, who would chain himself to a tree because he believed in people's rights, I think would be outraged and extremely indignant if this had been done at any other time or place. I think this is a sleeper, if you will, in this particular bill because of the principle involved.

Mr Lessard: On behalf of the interests of the city of Windsor, I think this amendment is crucial towards the city having the ability to take advantage of this opportunity. I feel that without this amendment it really could scuttle the ability of the city and the province and the bidders we've entered into negotiations with to operate the casino to actually have a place in which to operate the business. I would like to hear from someone from Municipal Affairs, if there's somebody here, who could speak to a municipality's ability to expropriate lands, because they already have the ability, as far as I understand, to expropriate lands, and that is an infringement of the rights of an individual, which is Mr McClelland's concern. However, municipalities do have that ability to expropriate lands, and the price is determined at a hearing if there's some dispute about what the value may be.

The legislation sets the value of the properties in the casino area at January 1, 1993. I think this amendment really gives the municipality the ability to expropriate lands for this particular purpose—that is, a casino—which may not be clear in any other legislation with respect to municipal powers.

If there's somebody here from Municipal Affairs who might be able to explain the rights of municipalities to expropriate—

Mr Duignan: I understand legal counsel from Municipal Affairs is here, Linda Perron. She can speak in general in relation to that, but not to Windsor specifically.

The Chair: Please go ahead.

Mr Linda Perron: My name is Linda Perron and I'm counsel with Municipal Affairs. To specifically respond to Mr Lessard's question, there is a provision in the Municipal Act which says that any power that's conferred on a municipality to acquire land, either in the Municipal Act or in any other act, includes the power to acquire by purchase or by expropriation. I realize it's a very narrow technical point I'm raising, but I think it goes some distance in answering your question about the power to expropriate. This provision refers to the power to acquire, but that in itself would refer back to section 5 of the Municipal Act and include the power to expropriate.

1530

Mr McClelland: As a point of information, I believe what Ms Perron just provided for that is section 5 of the act, just for future reference?

Ms Perron: Of the Municipal Act.

Mr McClelland: Thank you kindly, Ms Perron.

The Chair: Do you have further questions, Mr McClelland?

Mr McClelland: Yes, there is one comment that my colleague Mr Lessard raised. I'll put this in my own vernacular, Mr Lessard, with your indulgence.

I think what Mr Lessard said was that his understanding is, and it has been confirmed by counsel, that there's a provision under the Municipal Act for a city to proceed, so we're really just doing again what we already have.

I guess it's like saying, "I think I'm going to win this one, but in case I don't, I want to change the rules to make sure I'm going to win." That's putting it in very vernacular street language. It's like walking into a venture saying: "Let's do two out of three, and if I lose, let's make it three out of five, or let's make it four out of seven, until the numbers come my way or the results come out my way. We'll go into extra innings and we'll add on another inning, and we'll finish when my team is ahead. We'll change the rules to ensure that happens and that we win. Just in case we don't win, let's make sure we have a provision in the rules, but let's just carry on until we win."

Boy, oh, boy, when a government starts doing that, that tells me an awful lot about where the government's at in terms of its priorities: people and fundamental rights as opposed to their agenda. In my view, no government, I don't care whether it's Conservative, Liberal, New Democrat or whatever, has the right to make that kind of decision.

I say this: People literally fought and died to make sure that governments are very, very circumspect in terms of using the power of the state to override the rights of the individual. If we have embodied rights for the individual and if it doesn't go our way, so be it. If we have the confidence, the strength of our arguments, the strength of our case and the appropriateness of it and an independent quasi-judicial body to make the ruling, let them make the ruling. Let the games begin, if you will, or the war begin, but let it be fair.

Mr Kwinter: Although I'm in danger of being seen to be beating a dead horse, this particular section, section 19, brings forward even more dramatically the concerns I had under section 16. It talks about, "In this section, 'casino area' means the land in the city of Windsor bounded by Riverside Drive East, McDougall Avenue, University Avenue East and Glengarry Avenue."

When we talk about "casino area," that defines the geographic location; it does not define the terms. So in order to define the term, you've got to go back to section 1, and it says what a casino is. A casino means "a place which is kept for the purpose of playing games

of chance,” and under this particular provision, it describes the area as being those four streets. I don’t know how large an area that is, but it is very much larger than the casino area in the casino.

As a result, it is quite conceivable that the interpretation of the casino area is as provided under section 19 is that the casino area is that section bounded by those four streets in Windsor. It would seem to me that if the position of the government is—as it obviously is, because my suggestion was not taken up—that the casino is adequately defined under the act, then I would suggest that “casino area” has to be changed, because how you are going to say, “Well, the casino area in the casino is this, but the casino area outside the casino area is this”? The casino area cannot be the casino area that is defined by the streets if it’s also defining the casino area inside the casino complex. It would seem to me that there would have to be an amendment either that it’s the “casino project area”—there has to be some clear definition of what we are talking about, because all you’re talking about is “casino area,” and the only definition for that casino area—

Interjection.

Mr Kwinter: No, no. I’m talking about subsection 19(1). Subsection 19(1) says that “‘casino area’ means the land in the city of Windsor” defined by those particular streets. My question is, how do you differentiate between the casino area in the casino complex and the casino area as outlined by the geographic streets? There has to be some clarification so that one is not interchanged with the other. Otherwise, a casino is whatever is bounded by those streets, because it has been defined in the act as the casino area.

The Chair: I would just like to add that we at this point in time have asked Mr Wood, counsel, to draft a definition that we would deal with later. I don’t know if that’s going to solve your concerns, Mr Kwinter.

Mr Duignan: No, I don’t think so, Mr Chair. This is part II of the act and it reads: “In this section”—we’re referring to part II of the bill—“‘casino area’ means the land in the city of Windsor” etc. It refers only to this particular section, part II of the act.

The Chair: Does that, Mr Kwinter, help you in any way with regard to the casino area being in the bill only in part II, in section 19? As I read it, “casino area” has a specific definition in this part of the bill that isn’t applicable to the rest of the bill. Would that not be correct?

Ms Korey: That certainly was our intention, according to legislative counsel, and I believe this to be true, that it is clear that it is only in section 19 that “casino area” is defined in the way you’ve read out, Mr Kwinter. In fact, the definition of “casino” isn’t imported into the definition of “casino area” specifically designated for section 19.

The Chair: In the very beginning, Mr Kwinter, if I may, you did suggest you didn’t want to beat a dead horse. Is that satisfactory at this point in time?

Mr Kwinter: If I may just make one final comment, I’d be a lot happier if it was called the “project area” as opposed to the “casino area,” but be it as it may, I take your point.

The Chair: Thank you. We are dealing with a government motion, subsection 19(1.1). Mr McClelland.

Mr McClelland: A question to the parliamentary assistant, if I might. Mr Duignan, I recall, and correct me if I’m wrong—and this is tough; I don’t have the record in front of me. I recall an individual appearing before the committee in Windsor. I think he was a proponent of bicycles and had an issue with respect to a heritage building and so forth. I believe that at that time you were asked a question—and I’ll check the record; as I say, this is just in a speculative nature; I’m not saying this is so. But my recollection is that you were asked by that individual, or somebody asked, would people still have the normal rights and remedies, opportunities, under the Municipal Act, Planning Act and so forth? You responded in the affirmative. You said: “Absolutely. There’s no intent of the government to change any of that or take anything away.”

I’d ask you if that in fact is correct, and maybe you’ll want to search your mind for the answer to that, because it seems to me that what you’re doing now is in complete contravention of that response given to that individual, if I recall correctly. I think what you’re doing here is you’re saying, “We want to, if necessary, circumvent the Municipal Act and circumvent the Planning Act.” It seems to me very clearly that that was a question put to you and you answered, “No, that won’t happen,” and in fact said in the affirmative, “You will still have all remedies available to you.” I have to ask you: Do you think that commitment made by you on behalf of the government stands, in light of your proposed amendment?

1540

I’d ask this last question of government members. If it was in your own particular riding, regardless of the advisability of a project, just suppose it was a large developer, people who aren’t necessarily the allies of your particular government—I think I can say that—and they were trying to assemble property. We’ve had the classic case, and it does happen, where there’s one property owner who’s holding out. He or she says, “This is my family home, my kids were born here and I want to die here.” It’s the classic scenario you see on ABC Sunday night movies, where some elderly woman or widow farm person, farm wife—

Mr Duignan: The Waltons.

Mr McClelland: Yes, that’s the kind of drama that’s often involved. But let’s talk about that realistically.

Those kinds of things happen. You know what happens? Developers tough it out. They wait and negotiate. They deal with it through the courts or they go to city council and city council deals with it. They make those political decisions.

An individual may, from our perspective and our judgemental point of view, be being silly. You might say, "That's crazy." If it was me, they might say: "McClelland, you're being offered millions of dollars for a house that's worth a quarter of that so the developer can proceed. You're absolutely insane. You got mad and you're holding out."

You know what? We tend to sometimes hold those people up as heroes, in a sense. We say: "Good for you. You're not going to be sold out. You're holding out. I think you're nuts, but you're doing it." They become folk heroes in their own particular way. I'm telling you that most of you and most of your colleagues would fight like hell for those individuals. The principle is the same. It's the same principle.

Mr Duignan: In response to your first question, I would have to check Hansard. I believe the answer was correct, but I'm not too sure about the question. I will indeed check Hansard on that.

Mr McClelland: Thank you.

Mr Carr: I have a question for Ms Perron. I should let her know, because she probably doesn't know, that I'm not a lawyer. You said under the Municipal Act you essentially have the same powers as here. Would I be wrong in assuming that in terms of time, though, to take it through the process of the Municipal Act, it would take longer than it would to have it in this act, the various, how shall I say, checks and balances that are there to go through? What I'm getting at, is this really just an issue of timing? The authority is there but you want to rush it because we want a casino quickly, as opposed to having to wait to go through. Would I be wrong in making that assumption?

Ms Perron: Going back to my earlier answer, I referred to section 5 to make it clear that a provision such as we have in this bill, which would give the authority to acquire, would include the authority to expropriate. But it does not in any way modify the expropriation process itself under the Expropriations Act.

Mr Carr: Forgive me, but what you've just said is that this makes the timing easier, if this motion is passed, in terms of negotiations. What it really comes down to, in my mind, is timing. You can go through the process the regular Municipal Act, but the time it would take would be longer.

Forgive me for cutting through. I'm talking more like an ordinary citizen than a lawyer, but I see this motion as basically allowing them to do it quickly because they want to get the casino running, so they're prepared to

override the normal process to get it done quickly because they want it by January of this year.

Ms Perron: The purpose of the provision is to give the authority to acquire. It's not changing the acquisition process, which would include the regulated timing for the process that the process has to follow. It's a matter of authority and not timing.

Mr Carr: But you know what I'm getting at in terms of authority, the timing with the checks and balances and the amount of time on appeals and so on. It is the timing issue, essentially. I know you're talking from a legal standpoint, so you don't talk about time.

Ms Perron: But I do want to make it clear that it's not altering the expropriation process itself in any way, the authority that's being given for that purpose.

Mr Carr: To cut through what this amendment basically does, it allows allow them to speed up the process and to have a bigger—

Mr Lessard: She didn't say that. She said we still have to go through the expropriation process.

Ms Perron: What the provision is doing is making it very clear that the city of Windsor is given the authority to acquire the lands. In the absence of that provision, the city of Windsor would be relying on a redevelopment plan which covers the subject lands, and that authority in part exists through transition provisions in the Planning Act that carry forward provisions from the old Planning Act that pre-dates the 1983 legislation. This is the question, of the authority being specific in this bill so that you don't have to rely on the Planning Act provisions.

Mr Carr: Are there more appeal processes through the Planning Act provisions?

Ms Perron: No, there isn't.

Mr Carr: Then taking it back, having this in the legislation will not make it any faster for Windsor to acquire land, in your opinion.

Ms Perron: That's correct.

Mr Carr: Not being a lawyer, I thought it was that process. What this does, though, in terms of negotiations with any potential people who acquire land, is that it now gives you two remedies, one through the original, plus through this motion. You now have two ways—

Ms Perron: Two defences.

Mr Carr: Defences in legal terms. Let's put this bluntly: In terms of winning, this tips the scales. From the legal standpoint, this makes it more favourable for Windsor than it would be without, right?

Ms Perron: I'm not familiar with the details of the case you're referring to, and it's impossible for me to assess the relative weight of the arguments.

Mr Carr: Lawyers sometimes are more evasive than even politicians, and I don't say that negatively, because

I know how they think; they think logically.

Mr Sutherland: Where do you think Ernie and Carman got their start?

Mr Carr: If you wanted to put it in my background, in hockey, basically what you've said to the other team is, "The score is five to nothing and there's three minutes left in the game." You give them a big advantage. I appreciate your answer; you were helpful, by the way, for going through that.

Let's make this perfectly clear. This amendment gives them more weight in dealing with the people. I suspect the government on numerous occasions would talk about defending the rights of individuals. To stack it like this, I certainly can never support it, although I'm not surprised. When it comes to other areas of property rights entrenched in the Constitution, to be political for a minute, it has always been the NDP that has fought that because of the belief that expropriating for the better good is always important. I appreciate the clarification from a legal sense, but I won't be supporting this motion.

Mr Lessard: I just want to address Mr Carr's comments, because the answer he got from the lawyer was that it doesn't speed up the process; the expropriation process has to be followed. The way I understand it, this really just clarifies that the city is able to expropriate this property for the purpose that's in that section, ie, for a casino to be operated in that area.

You're talking about the Planning Act as it existed before, and in fact any legislation we've had before in any legal cases would never have referred to expropriating lands for casinos as a municipal purpose. We've never had them here, so this really just provides some clarity that, in this case, expropriating lands for the purposes of having a casino located in there could be a municipal purpose, because municipalities do have the right to expropriate property for municipal purposes as it stands now. If that is correct, you can let me know; if it's not, you can clarify whatever misunderstanding I might have.

Ms Perron: You are correct in stating that a municipality can only expropriate land for municipal purposes, but as I mentioned earlier, we are dealing with lands that are within a redevelopment area. Within that context, a municipality is not limited in its acquisitions or expropriations to deals with lands that pertain only to municipal purposes; it opens it up considerably, so that the objects of the redevelopment plan can be pursued and hopefully achieved. The normal limitations that you have on the municipal acquisition of land do not operate in a redevelopment context. That's why they're given the authority to acquire the lands, to redevelop, reconstruct, demolish, sell or lease lands. It's all to achieve the purposes that are set out in a redevelopment plan.

Mr Lessard: So this is actually providing more

restrictions on the city in the redevelopment area. This says they can only do it in this redevelopment area for casino purposes and for no other purpose.

1550

Ms Perron: The two provisions would be working parallel. One does not necessarily override the other, but what it does do, once the municipality establishes a plan approved by the minister, is to broaden its powers for that position.

Mr Carr: I wanted to make two points. First, I think you said that under the Municipal Act it has words to the effect of "may acquire and expropriate." We have "acquire" and not "expropriate" in this motion. What's the reason?

Ms Perron: Section 5, and I can provide you with copies, specifically reads as follows:

"Where power to acquire land is conferred upon a municipal corporation by this or any other act," this would be another piece of legislation, "unless otherwise expressly provided, it includes the power to acquire by purchase or otherwise and to enter on and expropriate." Unless our legislation exempted the municipality or took away the power to expropriate, that would be the only way to override section 5. Section 5 makes it clear you have the power to acquire; you have the power to expropriate unless the subsequent legislation takes away the power to expropriate.

Mr Carr: If somebody owned land in there, would one of the arguments of the lawyers be that without this in here, under the Municipal Act they wouldn't be able to expropriate because it wasn't for municipal purposes?

Ms Perron: That's correct, and that's why—

Mr Carr: And there is a good legal argument for that, right?

Ms Perron: That this is not a municipal purpose? That's correct, but it is permitted in a redevelopment plan context. This is what we're dealing with with those lands.

Mr Carr: Let me ask you something else. Again, my background isn't even in municipal politics so I'm an absolute rookie in that area as well. In municipal politics, you learn a little about a lot of the laws that pertain to it, so I'm not familiar. In other words, the city is going to have to potentially do it under a redevelopment.

Ms Perron: There is a redevelopment plan in place.

Mr Carr: It's already been approved?

Ms Perron: Oh yes, a long-standing one.

Mr Carr: Do you know if there are any challenges to that right now?

Ms Perron: To the redevelopment plan? I'm not aware of any.

Mr Carr: So things haven't gone to the OMB?

Ms Perron: No. This redevelopment plan actually

predates the 1983 Planning Act, and that is why the city is putting some reliance on the transition provisions of the Planning Act to carry forward the plan to the new legislation.

Mr Carr: In your legal opinion, not from the political, then why does the government need this motion?

Ms Perron: I think that is something the parliamentary assistant should be responding to.

Mr Carr: Okay, because he's a better lawyer than you are. That's why I said "legal," but I think I understand the answer: There is no legal, and ask the parliamentary assistant. But you get what I'm getting at. Actually, I watch Perry Mason, and I wouldn't be a bad lawyer; I think I got to the bottom of that pretty good. Now you know what I do at 12:30 at night, watch the Perry Mason reruns.

Coming here, I know you do get put on the spot, but I appreciate your help in getting through this.

Mr Parliamentary Assistant, what's your legal opinion for this? I know you're not a lawyer either.

Mr Duignan: That's why we have high-priced legal help.

Mr Carr: Essentially, that's the question, and forgive me if I'm putting words in her mouth, because she didn't, she just passed it over. But I asked her a very simple question, "Legally, why do we need to do this?" and she said to ask the parliamentary assistant. That, to me, means there is no legal reason. I guess it falls back to the political side of it, because we don't want to keep Ms Perron on the hot seat. Why is this being introduced then, Mr Parliamentary Assistant, if through the legal process it's already there to do it?

The Chair: Mr Lessard is anxious to respond to what you've said, Mr Carr, then we'll come to Mr Duignan.

Mr Lessard: I just want to respond to that and indicate that the city of Windsor does have a very competent legal staff and the provisions of Bill 8 were considered by the legal staff and by the city council at the city of Windsor. I'm referring to a letter that's dated May 27 that came from the city administrator, Hilary Payne, which indicates that council did consider a draft of Bill 8 and, in its comments to the draft, it points out:

"Part 2, subsection 3 of the bill deals with the powers provided to the city of Windsor in regard to the casino site. The section does not provide the city with the power to acquire the lands and it would be desirable if this power was included in the legislation. This would strengthen the city's hand in any litigation regarding the acquisition to the property."

If you ask why it is that the government is proposing this amendment, it is to deal with the request of the council of the city of Windsor.

The Chair: Mr Duignan, you wanted to add something.

Mr Duignan: I think Mr Lessard has said what I was going to say. But it also gives the city of Windsor greater certainty in its power to acquire land and also gives us legislative certainty as well.

Mr McClelland: Well, the parliamentary assistant has just said it. What happened here in a scenario like this: "Can we win this? Probably. Can you guarantee it? No. Well, let's strengthen our hand to make sure we've got to win."

Again, parliamentary assistant and my friends opposite, you cannot escape the principle involved here. You're saying, "If it might not go our way, let's make damned sure it will go our way, and the casino is more important than people's rights." That's the bottom line. You can try and dance out of it any way you want but at the end of the day, if you support this, you're saying that this project is more important than people and people's rights and more important than the legal remedies that those individuals have. You'll circumvent the law, the Municipal Act, the Planning Act or the Ontario Heritage Act or whatever you need to do to get your way, and as to consultation processes, "If you don't agree us, get out of our way because we'll blow you out of the way."

Mr Sutherland: One minute you're complaining we're not doing what the city asks and the next minute you're complaining when we are.

The Chair: Any further debate or comments on government motion subsection 19(1.1)? Seeing none, I suspect that a recorded vote will be requested.

All those in favour of the government motion, subsection 19(1.1)?

Ayes

Duignan, Lessard, Martin, Mathysen, Sutherland.

The Chair: All those opposed?

Nays

Carr, Eves, Kwinter, McClelland, Phillips (Scarborough-Agincourt).

The Chair: The motion is lost.

1600

Mr Duignan: I was wondering on what grounds the motion is lost, Mr Chair.

The Chair: Because the Chair did not support the motion, Mr Duignan. It's not debatable. Would you like the Chair to give you an explanation?

Mr Duignan: No. I accept the ruling of the Chair.

The Chair: That brings us to government motion, clause 19(3)(a).

Mr Duignan: I wish to stand this clause down.

The Chair: That brings us to government motion, subsection 19(4).

Mr Duignan: I wish to stand down this subsection.

The Chair: You must first move the motion.

Mr Duignan: I was just wondering, Mr Chair, I notice that we have new wording in subsection 14(1). I wonder if we can go back to that.

The Chair: Sure we can. We will return to PC motion, section 14, but I must ask Mr Eves to withdraw PC motion, section 15.1.

Mr Eves: I'll be pleased to withdraw my proposed motion to introduce section 15.1.

The Chair: Do we have unanimous consent to go back to section 14 of the bill? It would appear so. Mr Eves, would you read your motion on section 14 into the record, please.

Mr Eves: I would like to thank both counsel for the ministry and especially counsel to the committee for redrafting and expressing this in far better legalese than I could ever have dreamt of drafting.

I move that section 14 of the bill be amended by adding the following subsections:

"Access to other records

"(5) The corporation shall ensure that any person with whom it has entered into a contract to provide for the operation of a casino or a related business shall make available immediately to the corporation all reports, accounts, records and other documents in respect of the operation of the casino and the related business.

"Provincial Auditor

"(6) The reports, accounts, records and other documents described in subsection (5) shall be deemed to form part of the accounts of the corporation for the purpose of the Audit Act."

The Chair: I understand that we did have some discussion about this amendment. Is there any further discussion at this point?

Mr Eves: Just very briefly. As I said before when we were talking about the other section, which I've withdrawn, the purpose of this is just simply to make sure that the Provincial Auditor has the same access to the records of the company or individual operating the casino or a related business that he would have with a crown agency, so that the Provincial Auditor will be able to look into the affairs of the operation of the casino and such related businesses. That was the purpose. It wasn't very well stated in my original proposal, but I'm advised now that we've probably achieved that goal.

The Chair: Any further discussion?

Ms Korey: Just for clarification, I believe I heard you say that it would be that the Provincial Auditor had the same rights to look into the transactions or accounts of a business with whom the Ontario Casino Corp does business. I just want to clarify that it's with respect to the operation of the casino or any other business.

Mr Eves: Absolutely.

Ms Korey: It's just that you didn't say that.

Mr Eves: You're quite correct.

The Chair: Seeing that there's no further discussion, shall the PC motion, section 14, carry? Carried.

Shall section 14, as amended, carry? Carried.

We are back now to government motion, clause 19(3)(a). As I was explaining to Mr Duignan, he must move the motion first before he can stand it down, if that's what he chooses to do, or not deal with it at all, for that matter.

Mr Duignan: I wonder if we could deal with the Progressive Conservative motion under section 19.1.

The Chair: Okay. We're going to move then to PC motion, section 19.1.

Mr Eves: The government is not proceeding at this time with the other 19 amendment?

The Chair: That's right.

Mr Eves: The parliamentary assistant may or may not want to answer, but with respect to section 19.1 that the government was going to propose about the interim casino, could somebody explain to me, in as simple terms as possible, what that amendment does or purports to do, because it may or may not have the support of opposition members.

Mr Duignan: Basically, section 19.1 defines the interim casino areas; it basically is the legal description of the Windsor art gallery location. It also provides for proper zoning for a casino in that area in the same manner as for the casino area. It also provides that the minister responsible for the administration of the Ontario Casino Corporation Act can set a final date for the zoning exemption for the interim casino area.

The Chair: Mr Eves, any further comments?

Mr Eves: Perhaps we should continue on without the government's amendments at this point in time.

The Chair: When Mr Duignan returns, I'll get confirmation from him as to what he would like to do with the rest of the government amendments.

Mr Eves: I gather that the problem is that obviously the city of Windsor hasn't preplanned an interim casino and thus its zoning, as it currently exists, would not permit—am I correct or incorrect?—an interim casino site or a casino site of any kind.

Ms Korey: That is my understanding, though I haven't seen their zoning bylaw.

Mr Eves: So they find themselves in a bit of a quandary, especially with respect to the interim casino, if they want to proceed with it in fairly rapid order.

Ms Korey: That's correct.

Mr Sutherland: Mr Chair, I suggest a short recess.

The Chair: I think that's probably not a bad idea at this point in time.

Mr Sutherland: We'll say up to 10 minutes, maybe sooner.

The Chair: Mr McClelland, you had something to say before we recess?

Mr McClelland: Yes, briefly. It seems to me that of the remainder of the government motions, and I may be getting a little bit ahead of myself here, none of them—I'll speak for ourselves—are particularly contentious. They are things that, if I understand them, basically harmonize Bill 26 with Bill 8. There may be one or two comments only on two of the amendments. I just want to indicate, if it's of some help, that from our point of view I think that will go through relatively smoothly. I see only one or two brief comments, just by way of clarification, and I think it's just a matter of harmonizing Bill 26 with the casino.

The Chair: That information is appreciated by all the committee members.

Mr McClelland: I think that might be worthwhile, just as we anticipate—I'm sure we all have personal lives and other things on our agendas.

Mr Eves: I would agree, Mr Chairman. I think that once we get past any proposed amendments to section 19—or additional 19 sections, I should say—I think it's relatively clear sailing from there on in, so to speak.

The Chair: The Chair appreciates that information. We will take a recess for 10 minutes, and then we will proceed expeditiously, no doubt.

The committee recessed from 1611 to 1630.

The Chair: The committee will come to order. At this point, we're going to move back to section 1 of the bill, but before we can do that, we need unanimous consent. Do we have that? Agreed.

Actually, we've had considerable discussion about this section of the bill. It's a Liberal motion to section 1. Mr Kwinter, are you going to deal with this? This is your baby.

Mr Kwinter: Yes. I move that section 1 of the bill be amended by striking out the definition of "casino" and substituting the following:

"'casino' means a place which is kept for the purpose of playing or operating games of chance, but does not include those parts of a facility where games of chance are played that are not used for the purposes of playing or operating games of chance; ('casino')"

The Chair: I may be presumptuous in saying this, but I understand we've had considerable discussion about this and I think all the members of the committee are in agreement with this amendment. If I'm not correct, I stand to be corrected at this point in time. Therefore, I will ask, shall the motion carry? Carried.

Shall section 1, as further amended, carry? Carried.

Mr Kwinter: May I just thank both counsel for the opposition and counsel for the government for their help

in drafting this agreement?

The Chair: Indeed; thank you, Mr Kwinter. I would like to ask Mr Duignan what his intentions are with regard to section 19.

Mr Duignan: I'd like to stand down section 19 at this time.

The Chair: You'd like to postpone further consideration of section 19 of the bill?

Mr Duignan: That's correct.

The Chair: In that case, we will move directly to Mr Eves. I believe just before we took our recess we were dealing with PC motion 19.1.

Mr Eves: I move that the bill be amended by adding the following section:

"Police report

"19.1(1) Within sixty days following each year of operation of a casino in the casino area, the police services board of the city of Windsor shall complete a report on the effect of the operation of the casino on policing and crime in the city and file the report with the Solicitor General and Minister of Correctional Services.

"(2) The Solicitor General and Minister of Correctional Services shall lay the report before the assembly, which shall refer it to a standing committee of the assembly."

The Chair: An explanation, Mr Eves?

Mr Eves: Basically, I think we've heard quite demonstratively from the chief of police in the city of Windsor, and other witnesses as well, there is a great deal of uncertainty, depending on who you listen to, about what the impact on law enforcement is going to be in the city of Windsor. We just thought that if there was some mechanism whereby the police services board could make this report available on an annual basis to the Legislative Assembly, then at least we'd have the opportunity to look at it and be aware of the situation, I guess is the best way of putting it.

The Chair: Any discussion?

Mr Duignan: Very briefly, we can't support this motion. I thought we had an agreement that one of the reasons we amended 6(5), (6), (7) and (8) was that the independent committee would be reviewing the social, economic and law enforcement consequences of the operation of the casino in Windsor.

Mr McClelland: I understand exactly what Mr Eves is suggesting, that there be a specific and focused look at policing impact, because that was certainly one of the more consistent concerns raised. Accordingly, I understand full well and support the rationale and the intent of Mr Eves's amendment.

Mr Eves: I understand what the parliamentary assistant is saying. The only difficulty I have with section 6 as it's now amended is that it's rather a

permissive piece of legislation as opposed to one that ensures that there is a report filed with the assembly every year.

Mr McClelland: It's very general.

Mr Eves: It's an advisory committee, and the powers of the committee in subsection (7) as I read it are quite generalized, as Mr McClelland points out.

The Chair: Any further discussion?

Mr Sutherland: I may be wrong. It's my understanding that most police services boards have to file an annual report anyway. Obviously, in Windsor the police services board will comment on the law enforcement issues with that, and if any member of the Legislature wanted, I'm sure the Windsor Police Services Board would give you a copy of its annual report outlining any concerns it has.

I don't see why we need to add an extra reporting mechanism here and put this extra onus on the Windsor Police Services Board. I'm sure they'll be issuing lots of reports that will be public anyway.

Mr Eves: Actually, I'm glad Mr Sutherland has pointed that out, because it highlights the difficulty that the opposition had obtaining a copy of a report of the Windsor Police Services Board. It's one of the reasons why the Legislature sat until August 3, until finally the minister and the police services board in Windsor acquiesced to the request that a copy of a certain report be made available to the Legislative Assembly. It's exactly the point that this amendment addresses.

Mr McClelland: If one were very cynical, one would speculate that if things didn't exactly go as the government had hoped, if in fact they're worse even than predicted, in fear of being told, "I told you so," by people such as the police chief, that report may not be approved for distribution and for circulation.

Mr Sutherland: Do you think I'm saying that? Give me a break.

Mr McClelland: Quite frankly, Mr Sutherland walked right into it and made the point exactly. That's exactly why that amendment was put forward, because if you people don't like what you see, I doubt if it's going to see the light of day until you're long gone.

Mr Kwinter: I'd like to speak in support of this motion. The interim casino is being advocated as a pilot project by the government to evaluate casinos and their impact on the community from every aspect: from the economics, the sociological, the crime statistics, things of that kind. As a result, everybody will be watching this with great interest.

It would seem to me that if we put into the legislation the requirement that the city of Windsor must file a report, not just in its general report of the police services board but a specific report on its experience with the casino, this would be a valuable document to be used, not only in evaluating the efficacy of having a

casino, but also, if it is the opinion of the government that it's going to expand casinos to other areas of the province, then this would be a document that would be of great use to those other police forces in whatever municipality other casinos will be opened.

If in fact the intent of the interim casino is to evaluate the various aspects of the casino operation, it would seem incumbent upon us to make sure that a specific report on the impact on the criminal activity in Windsor be tabled in a separate report, that it be made available to—under the provisions of the proposed amendment I think it's the Solicitor General and someone else.

Mr McClelland: The Minister of Correctional Services.

Mr Kwinter: The minister of corrections. I would strongly recommend that we support this particular amendment.

1640

The Chair: Any further discussion? Seeing none, presuming again that a recorded vote is requested here, all those in favour of the motion?

Ayes

Carr, Eves, Kwinter, McClelland, Phillips (Scarborough-Agincourt).

The Chair: All those opposed?

Nays

Duignan, Lessard, Martin, Sutherland, Mathysen.

The Chair: The motion is lost. Mr Duignan has informed me that we also have a government motion, section 19.1, which he would like to read into the record.

Mr Duignan: I move that the bill be amended by adding the following section:

"Interim casino area

"19.1(1) In this section, 'interim casino area' means the land in the city of Windsor designated as parts 1, 2, 3, 4, 5, 7 and 8 on plan 12R-2300 deposited in the land registry office for the registry division of Essex (No. 12).

"Permitted land use

"(2) Despite any official plan adopted under section 17 of the Planning Act, any zoning bylaw passed under section 34 of that act or any interim control bylaw passed under section 38 of that act, the operation of a casino is a permitted land use in the interim casino area until the date prescribed by the minister responsible for the administration of this act if the requirements prescribed by the minister are met."

At this time I would like to stand this down as well.

The Chair: We're going to move to government motion section 19.2.

Mr Duignan: I move that the bill be amended by adding the following section:

"Regulations

"19.2 The minister responsible for the administration of this act may by regulation,

"(a) prescribe the requirements mentioned in subsections 19(4) and 19.1(2); and

"(b) prescribe the date mentioned in subsection 19.1(2)."

At this point I wish to stand this down as well.

Mr Eves: On a point of order, Mr Chairman: It's probably irrelevant in view of the fact that the government wants to stand it down, but would this proposed amendment not in fact be out of order at this time, seeing that subsections 19(4) and 19.1(2) have not been passed or dealt with? They're not in the bill. There's not a subsection 19(4) or 19.1(2) in the bill.

The Chair: It's actually just a postponement, Mr Eves, and they will be dealt with, we expect, together at some time later, which brings us to PC motion section 19.2.

Mr Eves: I would like to withdraw this proposed motion. After our meeting with ministry officials the other day, it would appear that there are some problems with respect to the Criminal Code.

Mr McClelland: Mr Chairman, on a point of information: Is the parliamentary assistant able to comment on this? The amendment just withdrawn by Mr Eves, as I understand it, dealt with what is commonly referred to as VLTs. Is the government going to issue something fairly substantive or a directive, or is it simply that the policy statement with respect to VLTs will be the sum total of any initiative taken by the government on that matter? I think the concern has been expressed and has been acknowledged by the government as an issue. Are you going anywhere further with it, or do you anticipate something that may be embodied in this legislation or subsequently in Bill 26?

Mr Mundy: The Criminal Code provides that VLTs must be managed and conducted in accordance with the law passed by the Legislature of the province. This bill only allows for VLTs in a casino. It's our opinion that it would require new legislation in order to introduce VLTs anywhere but a casino.

Mr McClelland: This is, I suppose, a question of jurisdiction, and I only ask this hypothetically because I see it becoming an issue down the road: Would it therefore be possible for the government, through an amendment to either Bill 8 or, subsequently, to the Gaming Services Act, to allow for what we commonly refer to in the vernacular as charitable casinos to have VLTs? Is that within the jurisdictional authority of the province, under either Bill 8 or 26? Subsequently, after legal counsel, does the government have any position or policy with respect to that issue?

Mr Duignan: I will ask legal counsel to reply to that.

Ms Korey: I can reply to the first portion of your question, Mr McClelland, and that is that the Criminal Code, subsection 207(1), permits only the government of a province to conduct and manage a lottery scheme that has—

Mr McClelland: VLTs.

Ms Korey: Well, they call them contrivances that are operated on or through a computer, video device or slot machine, within the meaning of another subsection of the Criminal Code. Charitable licensees cannot in fact manage or conduct such devices under the Criminal Code. To answer your question, there could not be a provincial amendment that would address this question for charitable licensees.

Mr McClelland: A supplementary, if I may, Mr Chairman, to counsel: I'm not challenging your response. It has been considered as a possibility that down the road there could be some sort of deemed partnership or deemed arrangement venture with respect to charitable casinos that would allow them to fall within the umbrella of the province operating something that's, in short, effectively deemed charitable casinos to be agents of or operating on behalf of the government. Would that be stretching it beyond reason?

Ms Korey: One would have to see the actual business structure you're proposing, to know whether it would be managed and conducted, in order to be able to give a legal opinion on that.

Mr McClelland: I suppose that's more of a policy issue as well. Mr Duignan, I have this question from a policy point of view: Do you envisage the possibility of your government at least holding open consideration for accommodating charitable casinos to be more competitive by utilizing what are commonly referred to as VLTs?

Mr Duignan: All I can say is that it's the policy of the government at this time to limit the VLTs to casinos.

The Chair: This brings us to section 20 of the bill. Any comments on section 20? There are, under part III, complementary amendments to the Gaming Act. The Gaming Act and section 49 of the Gaming Services Act, 1992, are repealed. I think that's pretty straightforward. Any comments? Shall section 20 of the bill carry? Carried.

Section 21: Any comments on section 21? Shall section 21 of the bill carry? Carried.

Section 22 of the bill: Any comments or discussion on section 22?

Mr McClelland: I just want to cross-reference with what was commonly referred to as Bill 26—I'm just trying to find my place—and correlate Bill 8 with Bill 26.

The Chair: You're okay with that?

Mr McClelland: Yes, thank you.

The Chair: Shall section 22 of the bill carry? Carried.

1650

Section 23 of the bill: Any comment or discussion? Shall section 23 of the bill carry? Carried.

Section 24 of the bill: Any comment or discussion? Shall section 24 of the bill carry? Carried.

Section 25: Any comment or discussion? Shall section 25 of the bill carry? Carried.

Section 26: We have a government motion on section 26 of the bill.

Mr Duignan: Section 26 of the bill, section 3.3.1 of the Gaming Services Act, 1992:

I move that the Gaming Services Act, 1992, as set out in section 26 of the bill, be amended by adding the following section:

“Advice to director or registrar

“3.3.1(1) The director or the registrar may refer matters to the commission for its advice.

“Hearings

“(2) In providing advice, the commission may hold such hearings as it considers necessary or advisable in the circumstances.”

The Chair: Any discussion or comment on the government motion?

Mr McClelland: I just want to highlight for the record and the parliamentary assistant—it may engender some comment from him—that this sets up basically a review procedure. I don’t suggest for one moment that the government is trying to sneak anything through, but I just want to note that this does not set up an appeal. I think it’s important that we make that point, on behalf of the people who may be operating games of chance and the charitable contacts and so forth, who’d say, “Hey, we now have an appeal process.” It’s perhaps a fine distinction, but an important one, that it is a review process that can in fact bring recommendations and/or findings, judgements, back to the minister and ministry for consideration but does not necessarily provide a remedy per se for an organization or individual. Rather, it’s a review as opposed to a remedy. I just wanted to make that point on the record for clarification.

Mr Duignan: That’s correct.

The Chair: Shall government motion, section 26, section 3.3.1, carry? Carried.

It brings us to government motion, section 26, section 3.4.

Mr Duignan: Section 26 of the bill, section 3.4 of the Gaming Services Act, 1992:

I move that section 3.4 of the Gaming Services Act, 1992, as set out in section 26 of the bill, be amended by adding the following subsection:

“Procedure

“(2) The commission may make rules for the practice and procedure to be observed in hearings before it under this act.”

The Chair: Any comment or discussion? Shall the motion carry? Carried.

Government motion, section 26, section 3.6.1.

Mr Duignan: Section 26 of the bill, section 3.6.1 of the Gaming Services Act, 1992:

I move that the Gaming Services Act, 1992, as set out in section 26 of the bill, be amended by adding the following section:

“Delegation of powers

“3.6.1(1) With the approval of the Lieutenant Governor in Council, the commission may delegate in writing any of its powers to the person or persons in the delegation.

“Conditions

“(2) A delegation is subject to the restrictions, conditions and requirements that are set out in it.”

Mr McClelland: Just by way of a question, I’m wondering if, for the purposes of the committee, the parliamentary assistant might be able to give an example which would be illustrative of the intent and predicted use of such delegated authority. I think it might be instrumental and useful in helping us understand what the government is proposing and seeking to do, maybe a quick review. Perhaps research counsel could assist with the powers of which we speak and the contemplation of the government to delegate those powers. I don’t particularly have any difficulty with them, but I think it’s important that we just have a quick handle on the scope of those powers and the proposed delegation.

Mr Duignan: Maybe I’ll get legal counsel to give you a couple examples of how this applies.

Ms Korey: Under the Gaming Services Act, the commission has certain powers; for example, exclusion orders and some registration powers if the proposed amendment is accepted. There’s a proposed amendment on some transfers of powers between the registrar and the commission.

The bill provides that a majority constitutes a quorum of the commission. The commission has a minimum of five people on it and no maximum on it. It may be that the commission would want to delegate to a specific panel of commissioners, for example, or fewer commissioners, in some cases, something that it didn’t consider that important, to have three or, if there’s a larger commission, perhaps seven commissioners hearing something. This gives them the power to delegate, either to one of its officials or to a special panel of commissioners who had special expertise, for example. Without specific legislative authority, a body doesn’t have any

authority to delegate. That's why we were asking that it be put in the legislation.

Mr McClelland: Not to muddy the waters, I understand that with the possibility of the commission expanding in size and over time as you perhaps go from place to place, there may be, by way of example, a northern representative or a group of individuals from the north who may be dealing with some areas, if Mr Martin will permit me, with particular reference to Sault Ste Marie, or likewise Ottawa and so forth, and you'd want to delegate.

Mr Duignan: Or Niagara Falls.

The Chair: Shall the amendment carry? Carried.

Shall section 26, as amended, carry? Carried.

It brings us to section 27 of the bill, government motion subsection 27(2), subsection 4(1.1).

Mr Duignan: I move that section 4(1.1) of the Gaming Services Act, 1992, as set out in subsection 27(2) of the bill, be amended by striking out the portion before clause (a) and substituting the following:

"Same, casinos

"(1.1) Except as provided in this act and the regulations, no persons shall provide goods or services for a casino or any other businesses operated by, on behalf of or under contract with the Ontario Casino Corp or hold himself, herself or itself out as providing those goods or services unless."

The Chair: Any comments or discussion?

Mr Kwinter: Can I have an explanation as to the subtlety of the change? I see it's gone from "with respect to the operation" to just "goods or services for a casino."

Mr Duignan: This is really not a political issue. I'll ask legal counsel to give the rationale for this.

Ms Korey: I'm sorry, Mr Kwinter; I missed the last part of your question.

Mr Kwinter: If you take a look at subsection 27(2), subsection (1.1), the government motion is that it moves move that this be struck and instead a new wording. The only change in the wording is that in the original it says, "with respect to the operation of a casino" and in the amendment it says "for a casino." I'm just wondering what is the significance of the change and why was it made.

Ms Korey: There are actually two changes. The other change is that, "by, on behalf of or under contract with the corporation." The words "under contract with the corporation" did not appear in the original version. This was an attempt to make sure that anybody the commission feels ought to be registered and investigated as a supplier ought to be registered and investigated.

The problem we had with respect to the operation of a casino, Mr Kwinter, was, for example, if someone supplied carpeting to the gaming floor area, we didn't

think that it would necessarily be caught. I don't know whether we might want to register that person as a supplier of carpeting if he did a lot of business with the casino.

It was just to ensure that the broadest possible catchall of registration, that people who supply to the casino be caught.

The Chair: Shall the amendment carry? Carried.

1700

That brings us to government motion subsection 27(2).

Mr Duignan: I move that section 4 of the Gaming Services Act, 1992, as set out in section 27(2) of the bill, be amended by adding the following subsection:

"Trade union

"(1.2) In addition to any provision of the Labour Relations Act, no trade union within the meaning of that act shall represent persons employed in a casino unless the trade union and such of its officers, officials and agents as are prescribed by the regulations are registered as suppliers."

The purpose is to provide for the registration as a supplier of any trade union which represents casino employees and for a regulation to spell out which union members should also be registered. This imposes the same requirements on the bargaining agent for casino employees as is imposed on all gaming assistants and suppliers. It is also in keeping with industry practice, in that the key American gaming restrictions require trade unions to be registered with their gaming commission.

The Chair: Shall the amendment carry? Carried.

That brings us to government motion subsection 27(4).

Mr Duignan: I move that section 27 of the bill be amended by adding the following subsection:

"(4) Subsection 4(4) of the act is amended by striking out 'under subsection (1)' in the second line."

Basically, this is a housekeeping amendment.

Mr McClelland: Could I get a legal opinion on that?

The Chair: Shall the amendment carry? Carried.

Shall section 27 of the bill, as amended, carry? Carried.

That brings us to section 28. Any comment or discussion? Seeing none, shall section 28 of the bill carry? Does the silence mean it's automatic?

Interjections: Carried.

The Chair: Thank you. That brings us to section 29. We have a government motion, subsection 29(2).

Mr Duignan: I move that section 29 of the bill be amended by adding the following subsection:

"(2) Clause 10(b) of the act is amended by striking out 'or' at the end of subclause (i) and by adding the

following subclause:

"(iii) officers, officials or agents of the applicant, or such other persons as are prescribed by the regulations, in the case of an applicant that is a trade union within the meaning of the Labour Relations Act; or"

The purpose of this extends the grounds for a refusal to register trade unions to past conduct of trade union officials, agents and others specified by regulation. This amendment is necessary because the Gaming Services Act only anticipated registrations of individuals, corporations or partnerships, but not unincorporated associations such as trade unions.

The Chair: Any further comment or discussion? Seeing none, shall the amendment carry? Carried.

Shall section 29 of the bill, as amended, carry? Carried.

That brings us to section 30 of the bill and a government motion, section 30.1.

Mr Duignan: I move that the bill be amended by adding the following section:

"30.1 The act is amended by adding the following section:

"Transfer of registrar's powers

"16.1(1) The powers and duties of the registrar under this part in respect of the matters that are prescribed in the regulations are transferred to the commission.

"Interpretation

"(2) References to the registrar in this part in respect of a matter where the powers and duties of the registrar have been transferred to the commission shall be deemed to be to the commission."

The Chair: Is there any explanation?

Mr Duignan: No.

The Chair: It's just a housekeeping change. Shall section 30.1 of the bill carry? Carried.

Mr McClelland: It's getting late.

The Chair: Indeed, Mr McClelland, it is getting late, and I want to say that the Chair bypassed section 30 of the bill and we've got to go back to that now. Dealing with section 30 of the bill, any comment or discussion? Shall section 30 of the bill carry? Carried.

We come to section 31 of the bill. Any comment or discussion? Seeing none, shall section 31 carry? Carried.

Section 32 of the bill, any comment or discussion? Seeing none, shall section 32 of the bill carry? Carried.

Section 33 of the bill, any comment or discussion? Seeing none, shall section 33 of the bill carry? Carried.

Section 34 of the bill, any comment or discussion? Seeing none, shall section 34 of the bill carry? Carried.

Section 35 of the bill, any comment or discussion? Seeing none, shall section 35 of the bill carry? Carried.

Section 36 of the bill, any comment or discussion?

Seeing none, shall section 36 of the bill carry? Carried.

Section 37 of the bill, any comment or discussion?

Mr Duignan: We have a motion.

The Chair: We do. I'm sorry, I hastened by that. Government motion to section 37 of the bill, section 47.1.

Mr Duignan: I move that section 47.1 of the Gaming Services Act, 1992, as set out in section 37 of the bill, be struck out and the following substituted:

"Gaming debt illegal

"47.1 No person may use civil proceedings to recover money owing to the person resulting from the participating in or betting on a lottery scheme within the meaning of section 207 of the Criminal Code (Canada) conducted in Ontario unless the lottery scheme is authorized under subsection 207(1) of the code."

The purpose of this is to clarify what might have been confusion in the bill as to what types of gaming debts could not be enforced civilly in Ontario. The proposed amendment makes it clear that this section only refers to debts incurred in illegal lottery schemes conducted in Ontario.

Mr Eves: Could I ask what the current state of the law could then be perceived to be in the province of Ontario, prior to this bill?

Mr Duignan: I'll refer that to legal counsel.

Mr Eves: Does that mean that civilly now you can collect on a bet or a lottery scheme that's not authorized by the Criminal Code?

Ms Korey: No. This particular section is meant to allow the casino corporation, for example, to enforce debts from legal gambling in Ontario, should this bill pass, but not from illegal gambling in Ontario. It does not change the law with respect to debts incurred in other jurisdictions.

The Chair: Any further comment or discussion? Shall the amendment carry? Carried.

Shall section 37 of the bill, as amended, carry? Carried.

We come now to section 38, government motion, subsection 38(1) of the bill.

Mr Duignan: I move that section 48 of the Gaming Services Act, 1992, as set out in subsection 38(1) of the bill, be amended by adding the following clause:

"(f.1) prescribe the matters in respect of which the powers and duties of the registrar under part II are transferred to the commission;"

This is to provide regulation-making power for the transfer of certain of the registrar's powers to the commission as discussed under subsection 16(1) of the act, which was carried.

The Chair: Any comment or discussion?

Shall the amendment carry? Carried.

Shall section 38, as amended, carry? Carried.

That brings us to section 39, government motion to section 39.

Mr Duignan: Before we proceed with section 39 of the act, could I have a three- or five-minute recess to consult with my colleagues in the Liberal Party?

The Chair: By all means. We'll have a five-minute recess.

The committee recessed from 1710 to 1718.

The Chair: Mr Duignan.

Mr Duignan: I move that section 39 of the bill be struck out and the following substituted:

"Commencement

"39(1) Subject to subsection (2), this act comes into force on a day to be named by proclamation of the Lieutenant Governor.

"(2) Subsection 19(1.1) shall be deemed to have come into force on January 1, 1993."

I'd like to stand this down.

The Chair: That brings us to section 40 of the bill, which is the short title of this act. Any comments or discussion on section 40? Shall section 40 of the bill carry? Carried.

At this point in time, we have completed the business that we can complete in this committee. Mr McClelland.

Mr McClelland: Before we go off the record, are you about to adjourn?

The Chair: Yes.

Mr McClelland: I just wanted to say thank you. These exercises sometimes get a little bit heated and sometimes we have some very significant differences of opinion. Overall, I think there's been a significant degree of cordiality, notwithstanding some significant disagreements.

I want to pay particular tribute and thanks to staff who have been with us from Hansard, legislative counsel, and the clerk. Tonia, thank you very much for

your assistance in making this run smoothly for us. It's much appreciated. Mr Chairman, I appreciate the way you've handled it.

The Chair: Thank you, Mr McClelland. I too want to, not to be redundant—Mr Duignan, would you like to add something?

Mr Duignan: I want to also echo the words of Mr McClelland. I appreciate all members of the committee on all sides. I think we've worked well together. Sometimes we did agree, sometimes we didn't agree, and that's the process of politics.

But I also would like to say thank you to the clerk and to Hansard and to all the other staff who've accompanied us over the last three and four weeks, and I also would like to pay tribute to the officials of the casino project team and other officials of the ministry, who were a great resource, and a valuable resource, to this committee. Thank you for all your work and dedication to this committee over the last four weeks.

Mr Eves: If I might, Mr Chairman, I would also like to echo the comments of my two colleagues. Also, I think we have effected some positive changes to the legislation, some agreed to, some not agreed to, and I think that's the whole purpose of the committee system.

The Chair: Thank you. I too would like to thank all those who have helped the Chair and certainly helped the committee get through the last four weeks. I can only reflect on one thing. From time to time we get corralled by the media and they want to ask us some questions. One thing that was asked of me in Windsor was, would there be any amendments to the legislation? At that point in time I said I had no doubt there would be, and I'm glad to see that my guess was accurate.

With that, I would just like to say thanks again. I want to remind the members of the committee, of course, that this committee is only adjourning and that we will meet again shortly after the Legislature sits again. This committee is adjourned.

The committee adjourned at 1722.

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Ontario Casino Corporation Act, 1993, Bill 8 F-731

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

***Chair / Président:** Johnson, Paul R. (Prince Edward-Lennox-South Hastings/
Prince Edward-Lennox-Hastings-Sud ND)

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***Lessard, Wayne** (Windsor-Walkerville ND)

***Mathyssen, Irene** (Middlesex ND)

North, Peter (Elgin ND)

***Phillips, Gerry** (Scarborough-Agincourt L)

***Sutherland, Kimble** (Oxford ND)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Duignan, Noel (Halton North/-Nord ND) for Mr Wiseman

Eves, Ernie L. (Parry Sound PC) for Mr Cousens

Martin, Tony (Sault Ste Marie ND) for Mr Jamison

McClelland, Carman (Brampton North/-Nord L) for Mrs Caplan

Also taking part / Autres participants et participantes:

Ministry of Consumer and Commercial Relations:

Wolfson, Judith, deputy minister

Alfieri, Dominic, assistant deputy minister

Korey, Audrey, counsel, casino project

Mundy, Jim, project team officer, casino project

Gillies, Bill, director of communications, casino project

Ministry of Municipal Affairs:

Perron, Linda, counsel

Clerk / Greffière: Grannum, Tonia

Staff / Personnel: Wood, Michael, legislative counsel

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Troisième intersession, 35^e législature

Official Report of Debates (Hansard)

Thursday 7 October 1993

Journal des débats (Hansard)

Jeudi 7 octobre 1993

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Ontario Casino Corporation Act, 1993

Loi de 1993 sur la Société
des casinos de l'Ontario



Chair: Paul R. Johnson
Clerk: Tonia Grannum

Président : Paul R. Johnson
Greffière : Tonia Grannum



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 7 October 1993

The committee met at 1009 in committee room 1.

ONTARIO CASINO CORPORATION ACT, 1993

LOI DE 1993 SUR LA SOCIÉTÉ
DES CASINOS DE L'ONTARIO

Consideration of Bill 8, An Act to provide for the control of casinos through the establishment of the Ontario Casino Corporation and to provide for certain other matters related to casinos / Projet de loi 8, Loi prévoyant la réglementation des casinos par la création de la Société des casinos de l'Ontario et traitant de certaines autres questions relatives aux casinos.

Clerk of the Committee (Ms Lynn Mellor): I call the meeting to order. Both the Chair and the Vice-Chair are absent. I would ask for a nomination for an Acting Chair.

Mr Gary Carr (Oakville South): I'll nominate Kimble Sutherland, if he chooses to stand for this position. This is for Chairman, not for his nomination for his next election.

Clerk of the Committee: Are there any further nominations? I declare the nominations closed and Mr Sutherland Acting Chair for the day.

Mr W. Donald Cousens (Markham): Does he get the honorarium?

The Acting Chair (Mr Kimble Sutherland): I formally call the meeting of the standing committee on finance and economic affairs to order. I believe we are still dealing with Bill 8, the Ontario Casino Corporation Act. I'm going to look for a little guidance on how we're planning to proceed. Are we going for the first amendment?

Clerk of the Committee: Section 19: There were several amendments in a package that was distributed to

the members. They have all been moved and postponed.

The Acting Chair: Okay, so we're going to be dealing with amendments that had been moved but had been stood down. I believe the first one we're dealing with is clause 19(3)(a). I guess since it's already been moved, we don't have to move it again.

Mr Noel Duignan (Halton North): At this point, I would like to withdraw motion 19(3)(a). At this point, I also withdraw motion 19(4). Also at this time, I wish to withdraw motion 19.1. Also at this time, I wish to withdraw section 19.2.

The Acting Chair: Okay. Moving along, shall section 19, as in the bill, carry? Carried.

We're moving on to section 39.

Mr Duignan: At this point, I wish to withdraw motions 39(1) and (2).

The Acting Chair: Okay. Shall section 39 carry? Agreed.

Mr Duignan: Also at this point, I wish to withdraw the motion in relation to section 5.1 of the bill.

The Acting Chair: Shall the bill, as amended, carry? Agreed.

Shall we report the bill, as amended, to the House? Agreed.

Is there any further business at this stage?

Mr Duignan: I don't believe so, Mr Chair.

The Acting Chair: I believe we're going to have a subcommittee meeting just after we've adjourned. I would ask members of the subcommittee to hang around so we can discuss further business. The meeting is adjourned.

The committee adjourned at 1013.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président: Johnson, Paul R. (Prince Edward-Lennox-South Hastings/
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Mathysen, Irene (Middlesex ND)

***Phillips, Gerry** (Scarborough-Agincourt L)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Duignan, Noel (Halton North/-Nord ND) for Mr Jamison
Harrington, Margaret H. (Niagara Falls ND) for Mrs Mathysen
Hayes, Pat (Essex-Kent ND) for Mr Paul Johnson
Martin, Tony (Sault Ste Marie ND) for Mrs Haslam
McClelland, Carman (Brampton North/-Nord L) for Mr Kwinter
Mills, Gordon (Durham East/-Est ND) for Mr Wiseman
Ramsay, David (Timiskaming L) for Mrs Caplan

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Subcommittee report

**Comité permanent des finances
et des affaires économiques**

Rapport de sous-comité

Chair: Paul R. Johnson
Clerk: Lynn Mellor

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 14 October 1993

The committee met at 1018 in committee room 1.

SUBCOMMITTEE REPORT

The Chair (Mr Paul Johnson): The standing committee on finance and economic affairs will come to order. Today we're going to be dealing with business of the subcommittee. The subject was the underground economy. Also with regard to that, once we've discussed that, we'll look at the list of potential witnesses concerning the underground economy. Mr Phillips, you were the keener with regard to—

Mr Gerry Phillips (Scarborough-Agincourt): I'm pleased—at least, I hope—that the committee is going to agree to go ahead with this. The subcommittee felt it was a worthwhile exercise. As I said at the subcommittee, I think this is in many respects a non-partisan issue. It's a complex issue. I don't think there are any simple solutions to it. I don't pretend that this one process, this one committee, will find all of the solutions, but I think it can be a very worthwhile exercise to help us understand how large the problem is, what people think, what we think, what the experts think are the root causes of it, and then begin to try and figure out some sensible solutions to it.

I'm quite enthusiastic about the study. I thought the report of the subcommittee captured how we should proceed. My recommendation would be to follow this process and kick it off next week. I would hope that the research staff, if they can find any worthwhile studies between now and then, might forward them to us. But give all of us a chance next week to talk a little bit about this, to articulate the problems as we see them, hopefully with some Ministry of Finance staff here to listen, because I would hope that the following week they might come before us and just give us their best advice on the size of it and what things we should be thinking about. I know that in the Ministry of Finance there are several people who have done studies. There is a Mr Spiro who's fairly widely known for work on the underground economy.

Then I would hope we would allow some time for groups and individuals to come before us to give us their expert testimony. I think there are probably three categories of people. There are some outside experts who have studied this for some time; I think the research staff probably already has identified some of them. Then there are some organizations that have studied it. I've had, as I'm sure most members have, briefs from the home builders and the retail council, and the chamber of commerce has expressed some interest, among others I would hope we would invite to come.

Then there may be some individuals who have views. As I say, I think if we can schedule three days—and maybe that'll be too much; I don't know—where we can hear from them, then I would think a couple of days to try to draft a report.

My own view on the timing is that it would be ideal to finish this before we recessed in December. I think realistically it may spill over into two or three days in January or February, but I hope we would try to complete it some time by January.

That's how I would hope the committee would agree to proceed. As I say, I think we have to keep our expectations in line with what we're going to be able to deliver, because this is a huge problem. I don't think it's going to be resolved through one all-party legislative committee, but I think we could do ourselves a service by really understanding the magnitude of the problem and beginning to say, "Okay, here are some directional solutions we would be recommending in the Legislature."

The Chair: I guess perhaps I should have read into the Hansard the report of the subcommittee so it's on record. I'll do that. Then we're going to go to Mr Sutherland.

"Your subcommittee met on Thursday 7 October 1993 to consider future business.

"(1) Your subcommittee recommends: that the committee review the issue of the underground economy; that one day be allotted for opening statements and discussion by members; that the ministry officials be allotted one day to make a presentation and respond to questions by committee members; that letters be sent to certain individuals and groups whose names will be submitted to the committee clerk by each caucus; that three days be allotted for these individuals and groups to make presentations to the committee; that two days be allotted to prepare the draft report; and that two or three days be allotted during the winter recess to finalize the report.

"(2) Your subcommittee recommends: that the pre-budget process take place during the winter recess."

Those were the recommendations of the subcommittee. I was remiss in not reading that into the Hansard first. We have heard from Mr Phillips and now I'll hear from Mr Sutherland.

Mr Kimble Sutherland (Oxford): I guess just a couple of comments: The issue, in principle, of doing an information-gathering exercise on the underground economy doesn't seem to be a significant difficulty. I think we should just look at the schedule that's been

outlined and maybe propose some revisions.

What you're proposing here is seven days, or seven weeks, in effect. That would take us up until December 2, given the fact that we miss a Thursday due to the week off for Remembrance Day. There are other revenue bills, I understand, that are in the works that may be debated and may be referred here to this committee in the sense that those revenue bills would, from my understanding anyway, take some precedence over what we're doing here.

I would like to suggest, just as a beginning, that we combine the one day of opening statements and discussion with the ministry officials coming in; that process can take one day overall. That would help to condense it.

With the rest of it, those revenue bills, I'm not sure we can have it all done before Christmas. I would agree with Mr Phillips that this would be an ideal thing, but if there are two or three revenue bills, taking some time to do that, the committee may have to look at a little bit of time in the new year, maybe even a couple of days, and may still have to have some hearings to do that. I would think also that the quicker we got through the revenue bills, the more time we'd be able to allocate for this purpose. I think that's important.

While we're dealing specifically with the underground economy, I think we also want to look at some avenues for enforcement and have some discussion around that. While legislative research has prepared a list, I don't know if we want to formally talk about that now. But I think there are some suggestions we'd like to make on additions. For example, on that type of list we don't see any enforcement officials recognized or suggested to come in. Maybe we should have some of them on the list.

On the other issue that seems to be obviously an issue, we don't see any native groups. Since some of the underground activity is taking place around issues regarding native jurisdiction, it may be a good idea to have a representative from native groups in as well, as part of the groups, just to give us a broader perspective on the type of comments.

As for opening comments, I would just put them out for discussion right now.

The Chair: It's true that if any bills were sent before the committee, they would pre-empt our ongoing investigation into the underground economy, just to make sure that everyone's clear on that.

Mr Norm Jamison (Norfolk): I'd just like to make a comment, which I believe most of us understand, and that is that this is indeed, as Mr Phillips has said, a very complex issue. If we're going to deal with a complex issue, we're going to have to look beyond the obvious. I believe there are obvious factors out there that people are aware of that really bring one's attention to the

magnitude of the underground economy in this province and elsewhere. It's important, I believe, that we explore all the potential sectors in which the underground economy has increased over time.

By virtue of saying that, I believe it's not going to be an issue this committee can deal with in a short, defined period of time. I believe the issue itself is one that is, as I say, complex. Dealing with those complexities and being able to derive the extent of the underground economy that's out there is going to take some extra magnitude of research and information by this committee. I have some difficulty saying that we're going to be able to accomplish what we would like in really revealing the situation to its full extent over a short period of time. I don't personally believe this is one of those issues where there are one or two simple, straightforward answers to the question.

Mr Paul Wessenger (Simcoe Centre): This is really a question to you, Mr Chair. It would seem to me that if we're going to deal with the underground economy, it would help to have witnesses who are involved in the underground economy come before this committee. So my question is, do we have any way of providing immunity to such people who would willingly come forward and provide such information? It would seem to be much more useful to the committee to hear somebody within the construction industry, where there is a great deal of underground economy involved, and some people in, say, the retail business of selling construction materials, which is one of the areas where I'm very much knowledgeable, where I've heard a great deal of underground economy takes place. And the same with those involved in smuggling: Is there any mechanism whereby people could come in here and give evidence with immunity; in other words, without fear of prosecution?

1030

The Chair: We'd certainly have to look into what potential implications there might be for any person who would make a presentation before the committee with regard to the underground economy. I don't have the answer directly to your question, but certainly we'll examine that and see what we can—

Mr Wessenger: That's what we're asking: Could we get a report back if there's a mechanism whereby we could do that? Because I think for it to be meaningful it would be very good to—that is in the US committee system, I gather, but of course I'm not certain whether we have the same flexibility here.

The Chair: I don't think we're going to enter into a relocation program for the witnesses, but certainly I'll ask the clerk to get the best advice with regard to that.

Mr Monte Kwinter (Wilson Heights): I think one of the things this committee's going to have to do is to define the problem. It would seem to me, from what I've heard of the various discussions this morning, that

there's a twofold problem. One has to do with the area of smuggling, which I don't classify as the problem with the underground economy. I think smuggling is an issue that is there regardless of what is happening in the economy. There are always people who will go places and buy things because the prices are cheaper and will bring them into the country either clandestinely, the way we're dealing with cigarettes and things of that kind, or travellers who are just travelling. I don't think they consider themselves part of the underground economy.

The thing I would like to pursue is not so much that particular aspect of it, although I think it's important. I think what has happened is that in Canada we have an honour system for paying taxes in that the number of people who get audited on their tax returns is infinitesimal compared to the number of people who file; there is basically an honour system. The fear of being audited is sort of the whip that keeps people honest, but your chances of being audited are probably as good as winning the lottery, because it's just a matter of personnel.

What has happened, I think, is that the tax regime has fallen into disrepute in that, given the economic times, where people find that their salary is either frozen or reduced, where it doesn't match with the costs of goods and services that they require, and given the fact that there is a GST and a PST, there is a real motivation for the supplier of goods to get cash so he doesn't have to report it as taxable income and the buyer of goods to get the goods without having to pay the additional 15%. Where normally law-abiding citizens would gladly pay a tax, there seems to be a situation where more and more citizens feel that, for whatever reason, their taxes are not providing them with the services they're paying for so they resent paying the taxes. Secondly, the amount of money they're paying is not in keeping with the incomes they have, so there's a real motivation to save that 15%.

That has developed several problems. First, it has deprived the government of tax revenues, which I think is one of the things we should be looking at. Second, it has created an underground economy. I think what this committee should be doing is trying to get a handle on how much taxation is being forgone by the fact that the government isn't getting it, how large is this underground economy and have we reached the point, which I think is the key ingredient, where our tax regime is counterproductive, whereby the more taxes we impose, the less revenue we're going to get because it's going to be the motivation to drive more and more people to the point where they're going to try to circumvent their tax obligations and deal with an underground economy.

I think it's a very, very onerous job to get a handle on it. I don't know, quite frankly, whether this committee has got the ability to do that, but it would seem to me that that is what we should be trying to strive for so

that we can give advice to the government on what is the size of the problem, what could be the solution to try to alleviate the problem and where should we be going.

The Chair: Mr Kwinter, could I just ask you a question based on what you said? You said that it has created an underground economy. Not to argue with you at all, I was always aware that there was an underground economy but it's certainly expanded to a large extent. Would you not agree with that? I've always felt that there was an underground economy that was small and I think it's expanded in a large way as a result of those circumstances that you've pointed out so well.

Mr Kwinter: This is why I want to separate the issues. There's always an element of smuggling. It's been going on for ever, where people don't declare things that they bring across the border. It's a national pastime; it isn't something that is new. Most people, if in their heart of hearts they were to admit it, participate. What I'm saying is that you might classify that as an underground economy; I don't. I classify that as smuggling and it's something that is a separate issue and I don't think we can do anything about that.

When we talk about the underground economy, I think it is a relatively new innovation in which professionals are bartering their services, where they're saying: "I'll do this for you if you do this for me. In that way, we don't have to declare any income, I don't have to pay any money and let's do that." There are people who are more and more offering, "I will pay you cash on the basis that I don't want an invoice because I don't want to have to pay GST and PST." Suppliers of goods and services are saying: "If you're prepared to pay me cash, I am prepared to give you this price. If you want an invoice, then it's going to be this price."

That may have been going on, but I don't think it has been going on to the extent that it is now, and I think that, in my opinion, the motivation for that increased activity is the situation we find ourselves in, with a depressed economy, with increasing taxes and with a cynicism about the service benefits that citizens are getting from their government for the taxes that they're paying. So in fact it's almost like a tax revolt. I think that is the useful kind of investigation that we could pursue to see what is the extent of this problem and is there anything we can do about it.

Mrs Karen Haslam (Perth): I was looking at the potential witnesses, and I understand that you've asked the research department to come up with people who have made comments and so on. I'd like to share the concerns of a couple of my colleagues about the people who aren't on there.

I think we need to look at some of the details around how it's done, some of the technicalities around how it's done, not just the policy area, because, with all due respect to the Canadian Manufacturers' Association

or the Fraser Institute, we know what they're going to say. What I'd like to look at is not just the results, because we know what the results are. I want to investigate some of the possible solutions or some of the underlying reasons for the extension of this economy.

So my comments would deal with including a wider range of people to come in and talk to us about this situation, about the underground economy, and not rehash what we already know, that it's resulting in this and it's resulting in less taxes and, "My business is failing because of this." I think what we have to look at is a little deeper than just somebody coming in and saying, "My business is going under; do something." I think we have to look at the people involved at the grass-roots level.

1040

Mr Phillips: I'll just comment on a few comments that have been made. I understand it's a big problem. My strong view is that if we try to make this a study of overwhelming proportions, we'll never get on to it and we will defeat ourselves before we start.

To Mr Jamison's comment, my own view is, let's get at it; let's spend a reasonable amount of time on it. There are some people who have made a career of studying it, so we're not starting from scratch. I'm not sure what the recommendations will be at the end of our exercise. Our recommendation may be that we need more information in certain areas. I've studied enough big problems in the past to know that you can sometimes quit before you start because you think it's just too complicated.

In terms of witnesses, the research staff gave us suggestions, and I think each of us should go away and figure out which ones we really think would be most useful to us.

I just urge us to not let the magnitude of the problem bog us down from getting started on it. I think we've got the expert advice and testimony, and I think the committee has the skills to say at the end of it, "Okay, here's what we've learned so far; here are possible solutions," or, "Here's the direction of possible solutions, but here's the missing information that we still need more data on."

Mr W. Donald Cousens (Markham): The subcommittee report, which is calling for just a layout of the strategy we would use as a committee to undertake the beginning of an investigation into the underground economy, is, I think, a reasonable position to start with if our expectations are also limited. If we were to do the full evaluation of the problem, I think we could spend literally years on it. It's not unlike some of the other committee work in the Legislature where—I have seen the amount of time that's spent by members.

I sat on the pension committee back in 1981. I attended 77 meetings, and there must have been close to

85 meetings altogether. When we came out we had a book that was several inches thick with recommendations. When we were finished, regretfully, most of those recommendations were never implemented or followed up or acted upon by the then government. I happened to be on the government side that week. It didn't happen. That's what happens to so much of our committee work in the Legislature.

I have seen the committee work that we have done, and I don't think there is anyone from any party who hasn't contributed significantly in developing quality research and information that will assist the ministries and the government to do a better job. I know the intentions we have as members when we're in committee can be manifested in some of the best reports that never get read and never get acted upon. As a result, probably one of the high frustration levels for me, as a member, is that for all the time and energy we expend, the amount that you realize that's worthwhile is minuscule and lost.

As a result, I think there's a tremendous benefit in scratching the surface, and that's all we're going to do on this.

(1) If we, as legislators, come away with a greater sense of urgency on the problem, we will have done something. I know that among the members in the committee, from the comments that have been said, there's a consensus to do it. I don't think that's the problem. But if we go out of it and then we get the ministers and future ministers on the same wavelength, then we begin to move forward.

(2) If we get the media a little more interested in it, we will have done another key job that we have to do, and that is, educate the general public as to the gravity of the problem.

I have an answer to a question to the Minister of Finance. I was asking him to what extent he measures the underground economy at the present time. He said it's increasing by 1% a year, and according to Statistics Canada it was about 6.7% in 1991. That would still make it under 10% as of today. The Fraser Institute measures it in excess of 22% as the size of the underground economy. I'll bet you we can go around the room and it would be something like any lottery that we've ever had. We're going to have varying degrees. It's probably worse in Markham than I think, and who knows where it's going on. But it's there.

So to me, what we're doing is we're making a conscious effort to open the subject, understanding that we're not going to get to the bottom of it. If our expectations are low and we go a little further, then we will have been the winner, and so will the people of the province of Ontario. I think that Karen Haslam makes a point: We would like to get into it but it's going to be hard to, but if it comes out of it that we can get some of the specifics and things, that actions can be taken, so

much the better. That, to me, is going to be an extra benefit. If we at least get the thing started, we will have made a giant leap forward.

I don't think this has ever been done in the Legislature in Ontario, where we've gone into this side of things, because it's not a subject that's been raised. To do so now is a good time and I think that out of it can come recommendations that we will carry back to our caucuses, to the Provincial Auditor, to specific ministries, to the police at different levels and it may well have ramifications at the federal level.

We're now at the point where the underground economy has gone above ground. They're now above ground in the Cornwall area. The smuggling and operations that we've commented on, it's worse than anything we've ever seen. So what we've got to do is get a better understanding of the problem. I believe you're 50% of the way to the solution when you define the problem. If we understand the definition of it after we've completed our preliminary assessment, which is what this is, then we will be, I'd say, 50% on the way to the solution.

The Chair: Thank you, Mr Cousens. You raise a good point. I don't know how any organization or anyone can measure an unknown quantity. Something that we're going to be dealing with here is certainly the unknown with regard to how much and to what extent it's taking place.

Mr Derek Fletcher (Guelph): I have a couple of questions. One first: Exactly what is this committee trying to find out? What is the objective of the committee in studying the underground economy? Is it trying to find out how, why, where or what is happening with the underground economy or is it just to get it out into the public that there is an underground economy, which everyone already knows exists anyway?

As for the reasons for an underground economy, as has been said, it's been around for a long time. I think if we look at Prohibition, the reason for the underground economy was because there was no alcohol in the United States at the time and that's why there was a supply, not because of taxes or anything else but because of the supply and demand market forces that were going on. If we look at offshore clothing that comes into the country with brand names, again it's an underground economy but it's something that's happening.

When I look at the presenters, I would much rather hear from—

Mr Sutherland: It's only potential.

Mr Fletcher: Okay, potential, but even in the potential, I would much rather hear from people who are somewhat involved in the underground economy themselves. I think we have some people from the Cornwall area, as far as tobacco is concerned.

Mr Cousens: Some of the crooks themselves.

Mr Fletcher: Yes, I think so.

Interjection.

Mr Fletcher: You may know some of them.

I think it's important that we not only hear from some of the crooks themselves, but I think it's also important that we hear from people who have been involved in the underground economy, more so than the Canadian Manufacturers' Association or the chamber of commerce, which have done papers on it. I would much rather hear from the grass-roots people who are involved in it and also from the local municipalities where things are happening that are hurting their economy, and again, we look at the Cornwall area. But I think we also have to look at other aspects of the underground economy that are draining revenues, because it is not just in tobacco that we have the problem. I see so much from the tobacco industry and, talking about tobacco on this potential witness list, I think we could be missing a lot more.

1050

Again I have to ask the question, why are we going to spend the time discussing something that everyone knows is a problem? The solutions that are available to us are probably few when we discuss something such as the criminal activity in the underground economy. We can boost up crime-prevention people, we can put a lot of money into crime prevention and it will still be there. I think that we have to look at ways other than just identifying the problem. We know the problem exists. I think that what we have here is an attempt just to, in a way, bring it to light and try to embarrass the government. That's what I see.

The Chair: For those members of the committee who weren't here shortly after we started, Elaine Campbell, the research officer, has prepared us a cursory list of people who might be witnesses with regard to our investigation into the underground economy. If any of the members of the committee have any people they would like to suggest as potential witnesses, then certainly I think if they were presented before the committee and eventually to the clerk, we could look into that.

The other thing is, also for those members who weren't here very early on, that we have put the question to the clerk to look into what the implications are of people who are actually engaged in the underground economy coming before the committee and what kind of immunity we can offer them. That will be examined and we'll get back to you with regard to that.

Mr Sutherland: I think we've had quite a bit of discussion about what we want to do. We've recognized that there are limitations. My sense from the subcommittee was that this exercise would be similar to the exercise we did on cross-border shopping. This commit-

tee examined the issue and at the end of the day there were different recommendations from the different parties on what should be done and how it was dealt with. But it was a good information-gathering exercise from all the groups that we had come forward.

We had quite a wide cross-section of groups come forward and talk about what they felt the issues were with cross-border shopping etc. Many of the groups put forward several recommendations, some that committee members had already thought of and others that they hadn't thought of, but it was a good information-gathering exercise. I think if people went back and didn't even look at the recommendations section, if they looked through the content of the report, they would find some good information to use as a basis for examining that issue. I think the sense was that we should be trying to do the same thing here.

With that in mind, I'd like to come back to the actual mechanics of how we're going to do that. I suggested that what had been put forward, that we condense the ministry officials with the day allocated for opening statements and discussion by members, that that should come down to just a one-day process to get on with it—Mr Phillips has suggested that we take the initial cursory list prepared by research and go back and see what our thoughts are on that. I guess if we accepted my suggestion to condense that in one day, we'd probably be doing that first day next week and then we may want to be right into having certain people come the following week.

Only giving one week's notice to folks to appear may be too short a time. I guess that would leave me with the idea that I don't think any of us were really looking at meeting this afternoon, but maybe we should come back this afternoon with some suggestions on what types of groups we'd want to come forward to allow the clerk to give these folks some more lead time in terms of preparing presentations. Certainly, whatever groups are going to come forward, if we said the second day of hearings was going to be presenters, they would probably want at least two weeks to put it together.

Mrs Elinor Caplan (Oriole): I've been listening to the comments from a number of members around the committee, and my own experience is that committee investigation and discussion of issues such as this—we also discussed cross-border shopping. I remember serving on this committee when we looked at the whole trade issue. This was a number of years ago. The opportunity that it affords both members of the committee as well as the public is a chance to consider the implications as well as to make specific recommendations to governments.

The concern I have is that there's a general acceptance today of an underground economy that frankly didn't exist a few years ago, and there may be many reasons for that. I think my colleague was correct when

he said it's complex. Certainly, I couldn't say that I can sit here today and give you all the answers, and therefore I think it would be very valuable for this committee to hear a broad range of opinions from people who would bring different perspectives on the whole issue.

I don't know whether it would be possible, but if it would be, I think it would be valuable and helpful to see if we could hear from some individuals, not those who would be in need of any kind of protection for having engaged in the activity, but rather individuals who just might have a perspective on the person who perhaps has been approached, has been tempted, or who doesn't feel there's anything wrong, doesn't understand the implication of engaging in that part of economic activity, but just sees it as a normal way of proceeding, or who are interested in what some of the implications might be. I don't know how we'd find them.

I've had some constituents, when I'm talking on the street, say, "Look, everybody is quite comfortable with a cash transaction. What's the big deal?" Perhaps these hearings and this investigation can raise the consciousness of those individuals, can discuss what the implications are for our society, because what we're really talking about is a general breakdown in the value system within our system—I thought Mr Kwinter said it well—in the sense of value that people feel they get from tax dollars and therefore why it's important for us all to properly remit and pay our taxes.

I don't think anyone realistically would ever suggest that tax avoidance wasn't a very legitimate activity, and it is. Everybody would like to pay as little as they can and there are, as we know, many professional lawyers and accountants who give advice on all the legal ways that you can properly minimize tax payments. On the other hand, maybe hearing from some of them would assist us in understanding, because it's perhaps a fine line between that kind of legitimate and legal avoidance and the kind of activity which is having such a potentially negative effect on the psyche as well as the economy of Ontario.

I wanted to make these comments because I do think there is a fine line between avoidance and the attitude of the public that says it is a legitimate activity to try to minimize taxes, and those who participate in the kind of cash economy which we call the underground economy, and maybe that's part of starting to understand what is really happening and how people are feeling at this time. We know they're all feeling overtaxed and that the burden is very heavy. I think it's an opportunity for the committee in its work to explore some of those realities in our society today as well.

1100

Mr Drummond White (Durham Centre): I find myself agreeing with Mrs Caplan and I think there are some significant issues that really do bear some exploration: the value breakdown Mrs Caplan mentioned and

the concomitant social consequence of an expanded underground economy, something which I imagine has always been with us but has expanded greatly in the last little while. I think those issues bear some exploration.

Some of the exploration we've heard on this issue to this point has been very conjectural. There's a hypothesis of X number of dollars. We can read in Maclean's magazine or the Toronto Star or the National Enquirer or whatever some suggestions of the extent of the underground economy, but with the list of organizations cited, I don't know that they themselves would not have a bias already towards an exaggeration of the extent of the underground economy. I'm not sure that these groups would necessarily offer us that much of substance. They are groups which already are greatly affected by it and would tend, I would suggest, to exaggerate its extent and its effect upon them. So I have some concern about some of the groups that are cited.

The other thing I'm wondering about is whether or not there has been a study already of this issue, whether or not suggestions have come forth from the federal level. After all, it is a much more profound issue at the federal level than it is at the provincial level, especially when we're talking about not only income, not only GST avoidance, which has been a prime incentive to tax avoidance in the underground economy, but also of course in terms of tobacco and liquor. A great deal of smuggling has been involved, which of course is beyond our jurisdiction. It's something we haven't any power to control. We end up with recommendations that the RCMP do X and Y. It won't do us much good, seeing as the RCMP is beyond our jurisdiction.

I wonder if we have any information from the federal government, or has it been effectively avoiding its responsibilities to this province, as has happened in the last nine or 10 years, and not done anything on this issue and left us bearing the brunt? I wonder if we could solicit some information from that level of government.

Mr Phillips: I have to go to the Legislature to speak on the next motion.

I have no trouble with Mr Sutherland's proposal, which is to combine the two days. I think Mr Cousens, on behalf of, as we say, the third party, doesn't either. I have no trouble meeting this afternoon for each of us to kind of say, "Here are our priority witnesses," because it was the research staff who prepared it on the basis of some discussions. A member of the native community is a good suggestion. I think some of the enforcement community is a good suggestion. I have no trouble with that. I think maybe we should reconvene this afternoon, each of us with a little priority list of witnesses.

The Chair: I think at this time then it would be wise to deal with the subcommittee report. Mr Phillips has suggested that he agrees with Mr Sutherland's recommendation to combine the first two days into one. Does that then make the report, as amended, agreeable? All those in favour of the amended subcommittee report? Carried.

With regard to meeting this afternoon, we can either meet as a whole committee or as a subcommittee to bring forward the names of individuals or organizations or representatives that each caucus would like to bring forward, to submit to the clerk to request their appearance before the committee.

Mrs Haslam: That sounds fair. I'll give my names to Mr Sutherland, if I have any.

The Chair: Is it agreeable then that we meet as a subcommittee, have the subcommittee authorize the final details of how we will proceed? Okay, that's agreeable.

Is there any other direction you'd like to give the clerk with regard to the business of this committee at this time? Seeing none, this committee stands adjourned until further notice. The subcommittee will meet at 3:30 pm this afternoon in committee room 1, right here.

The committee adjourned at 1106.

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Prince Edward-Lennox-Hastings-Sud ND)

Vice-Chair / Vice-Président: Wiseman, Jim (Durham West/-Ouest ND)

***Caplan, Elinor** (Oriole L)

Carr, Gary (Oakville South/-Sud PC)

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Mathysen, Irene (Middlesex ND)

***Phillips, Gerry** (Scarborough-Agincourt L)

***Sutherland, Kimble** (Oxford ND)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Fletcher, Derek (Guelph ND) for Mr Lessard

White, Drummond (Durham Centre ND) for Mr Wiseman

Wessinger, Paul (Simcoe Centre ND) for Mrs Mathysen

Clerk / Greffière: Mellor, Lynn

Staff / Personnel: Campbell, Elaine, research officer, Legislative Research Service

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Jeudi 21 octobre 1993

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Underground economy

Économie clandestine

Chair: Paul R. Johnson
Clerk: Lynn Mellor

Président : Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 21 October 1993

The committee met at 1014 in committee room 1.

UNDERGROUND ECONOMY

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. Today is the first day the committee is examining the subject matter of the underground economy. Our first presentation today is by the Ministry of Finance. I certainly know Roy Lawrie, assistant deputy minister, tax division. Roy, if you wouldn't mind introducing your colleagues for Hansard and the committee members, I'd appreciate it.

Mr Roy Lawrie: With me are Peter Wallace, office of economic policy, and Peter Spiro, also of the office of economic policy in the ministry.

The Chair: If you would like to proceed now with your presentation, I'm sure that when you're finished there will be many questions from the committee members. Please go ahead.

Mr Peter Wallace: Does everybody have a copy of the slides now? Everybody's all set, and I'd like to turn to the first slide. I'll speak first, followed by Peter Spiro, followed by Roy. I just want to talk briefly about the structure of the presentation, give you an idea of what's coming, so you can phrase your questions in that context.

First of all, I'll provide an introduction in which we'll talk about the definition of the underground economy, some of the broad, macroeconomic factors that underlie the emergence of the underground economy; some of the more cultural and more specific factors that are driving it; some words about both tobacco tax structures and the province's overall tax structures in terms of personal income tax and other areas, showing where we rank relative to other provinces etc. We will also talk about jurisdictional issues. As you know, jurisdictional issues are very critical in this whole area because there is a substantial amount of overlap.

Peter Spiro, who I think is familiar to many people here because he's written a background economic paper on this subject, will talk about size and measurement issues of the underground economy. He'll do some international comparisons, talk about the existing literature and also talk about some empirical evidence in terms of what it does to tax revenues etc.

Roy will talk about an area I think you're all very interested in, at least I expect you're very interested in, which is the administration and enforcement of Ontario taxes and what the province has done to address this issue.

First, switching over to the next slide now, the first real slide, let's talk about the definition of the underground economy. We should understand that the underground economy is not a brand-new phenomenon. It's been around for ever. There are many reasons why people take economic activity underground. One of the most obvious reasons is simply that it's illegal in the first

place. It's associated with narcotics, stolen goods, all sorts of other illegal activities that simply have to be conducted in cash, for all sorts of reasons, one of which is that they're trying to avoid the police.

Secondly, and a major component of the more recent discussion on the underground economy as we talk about a growing or emerging underground economy, is the notion of tax evasion. Tax evasion itself is not a simple phenomenon. People can try to evade retail taxes, they can try to avoid income taxes, they can try to avoid all sorts of other things.

The other thing to understand here is that people can be going underground because they are operating in the illegal sector, because they want to avoid other regulations, for example, labour law regulations, consumer safety regulations; people may want to be sheltering money from spouses for child support payments; all sorts of reasons along those lines.

One of the key points we want to make in this presentation is that the underground economy is very, very hard to get a handle on. Not only is it complex, covering a whole variety of sectors and subsectors in the economy, but is by definition hidden from statistic scrutiny.

It's hidden from revenue scrutiny, by and large. People do not report these items, whether they're done on a criminal basis or whether they're on the basis of simply trying to evade taxes. It's invisible to the economic data as well. It doesn't show up in the GDP or national account statistics or anything that, so again it's very hard to get a handle on that. Peter will talk about that later.

One of the things I do want to say to the committee is that you have an extensive set of hearings with a fair number of expert and good witnesses. Some people will have a fairly good handle on the exact size of the underground economy. In the ministry we will not be able to give you exact numbers on either the size of the underground economy or the potential revenue loss associated with that. We've done extensive research in this area. The best of our capacities are not showing up good, hard numbers on these things, simply reflecting the fact that this stuff is hidden.

It may be that other people will have good evidence on that. You'll have to make up your own minds as to whether or not that's absolutely reliable. This is something the ministry's very interested in, has pursued very rigorously, and has been able to get some good work, such as Peter's work on showing the size of the economy and Roy's work showing some of the types of enforcement activities and how they've been able to increase results etc, showing that there is an underground economy out there and that it does occasionally come to the surface in various ways that can be measured, but in terms of hard and concrete numbers, we don't have any.

I'd like now to talk about some concerns about the underground economy and why policymakers and people

in the public policy field should be worried about the underground economy and some of the issues and problems it can bring.

1020

The first thing we want to talk about is one of the most obvious: There are revenue losses. There are simply fewer resources for Ontario's programs and for deficit reduction, no question about that.

Secondly, there's the whole issue of fairness. Basically, the tax burden does fall on honest individuals, people who are paying their fair share. Let's face it, in Ontario it's fully possible for people who do not pay their fair share to get a free ride on the government services paid for by others, so there's a real fairness issue in there as well.

There's also the whole issue of public safety and social policy. I know there are a number of people here who have spoken in the House and elsewhere about the whole issue of public safety in Cornwall and other issues. There are public issues associated with smuggling and other criminal activities in the underground economy, and those are real concerns.

Another thing is that if people are going underground to avoid labour regulations, if they're going underground to avoid consumer regulations etc, they're going to miss the appropriate protection for workers and the appropriate protection for people who buy goods and services. A whole section of the economy can be taking place without the appropriate contract law, without the appropriate legal framework and without the appropriate legislation etc. People are at a substantially greater risk in that sector.

Thirdly, it's going to undermine tobacco and alcohol control strategies to the extent that these products are shifting into the underground economy.

Finally, the lack of labour standards, something I've already mentioned: As people will be willing to work, for example, in non-standard jobs, they won't be getting the normal benefits of unemployment insurance, of workers' compensation benefits, etc, so there are concerns about that.

The last thing we want to talk about is the emergence of parallel markets. Black markets, or underground markets, can apply to both legal and illegal goods. What we're seeing to some extent and what we'll talk about a little bit later is that there are some products, tobacco being the most obvious one, ordinary legal products where you are seeing the emergence of parallel markets. That has some real implications for how Ontario society functions. I don't want to exaggerate these things. I'm not saying that we're seeing a whole criminal class or a whole criminal sector made up of all sorts of people, but there is an issue of how the Ontario economy and society function and the emergence of markets for essentially inefficient economic reasons.

Finally, consumers and corporations can develop a taste for cheating. Basically, as you move into one area of the underground economy, for whatever reason, you may find it convenient to carry through other transactions in the underground economy. The argument there is a bit

of a domino theory, that there is some potential for spread.

I would really like to be able to give you hard numbers on these things and to give you some sense of exactly what's occurring and how big a problem these things are in both relative and absolute terms. Quite frankly, we can't. I simply reiterate that this is a very complex issue. It's one that, by its very nature, has not shown itself to be particularly open to detailed and reasonable statistical study.

I'd like to talk now about some underlying macroeconomic factors that we feel are driving some of the underground economy issues and, to the extent that there has been growth in the underground economy, are likely to be driving some of the growth in the underground economy.

First, we have to recognize that the Ontario recession has been very, very severe. The peak-to-trough GDP decline has been 8%. That's twice the national average, so Ontario has been really hammered in the recession. That's going to have an impact and it's going to drive some of the more specific factors that I'll talk about on the next page. Just as people don't have work, are forced to seek alternative forms of employment, need to save money etc, there's going to be an impact there.

Just to amplify the point, Ontario has suffered 70% of the total employment losses that occurred in Canada over the course of the recession, a very disproportionate impact, and unemployment has more than doubled. These statistics are by no means unfamiliar to members of the committee, but they do emphasize the point that the main macro factors in the Ontario economy have changed substantially. That's going to have implications throughout the economy, both the legal, visible economy and the invisible economy.

I'd also like to point out that the prognosis for the Ontario economy is one of continued growth, but restructuring is continuing. The economy has regained 116,000 jobs since the trough of April 1992, but that's only a third of the recession-induced decline, so we are seeing substantial unemployed resources out there, capital resources, human resources etc, in the economy, looking for ways of becoming more productive.

Finally, the unemployment rate and duration remain unacceptably high. It's not just a question of the actual numbers of people unemployed, but the period of time they're being unemployed and the extent to which that will feed through into the underground economy.

I'd like now to flip to the next slide and talk about driving factors. These are some of the more specific factors that we feel are likely to be influencing the underground economy.

First of all, we're seeing a real consumer orientation now towards cost savings. I think we've all seen the real shift in how retail sales are operating in this province with new chains emerging and many traditional chains really having a very, very hard time, margins being squeezed as consumers look for ways of saving money. To some extent, the underground economy, particularly that part of the underground economy associated with tax

evasion, does offer consumers an opportunity to save money. It also offers an opportunity for dishonest people to make more money.

Another thing is simply high unemployment. There are many, many people out there who are unable to work in a full-time standard job who would vastly prefer to work in a full-time standard job. This may put people in a position of being willing to accept non-standard employment and under-the-table arrangements. I think you have representatives from the construction sector coming to speak to you in a couple of weeks. I think you may want to explore that issue with them. But quite frankly, you are seeing areas of the economy where you have very high unemployment on a sectoral basis that is going to mean that people, regardless of the tax structure, regardless of other factors, are going to be in a position where they're likely to be seeking alternative income.

The underground economy may allow individuals to generate some income, presumably under-the-table income, while retaining unemployment insurance or other social assistance. I've no idea of the magnitude or the extent to which that happens, but at least in the hypothetical sense it's certainly something that is possible, and you may want to explore that with some of your other witnesses.

Another major factor is simply that networks are becoming established. We'll talk about this a little bit later, but just to preview one point, tobacco taxes have not risen substantially over the last few years, yet it seems to us that tobacco exports, and likely tobacco exports to the US and very likely tobacco smuggling, have increased substantially over the last couple of years. That may be a function of not necessarily the very short-term tax changes but simply networks becoming established over time. Again, this is part of the issue I raised earlier about the potential for institutionalization, frankly, of some areas of the invisible economy and some issues around that.

Finally, the notion that sales tax evasion may be becoming widespread in some sectors: I think everybody here has heard stories about some sectors of the economy where simply not paying the GST and RST—particularly the GST—has become common practice.

Finally, there are some issues about public perception. As Peter will talk about in a few minutes, the introduction of the GST appears to have been a real watershed in how people view taxes and in how people react to tax burden. It seems to have had a disproportionate and exceptional impact on how people view taxes and how much people are willing to pay their taxes. It is, after all, an extremely visible tax.

In terms of value for tax dollars, there seems to be a general sense that I think we're all familiar with that people are concerned about the value for tax dollars and may feel they're not getting enough. As they work on this, as they kind of look for rationalizations about why people might participate in the invisible economy, why they might not pay their fair share despite the fact that they know that they're going to free-ride on other government services etc, they may well view tax evasion as a bit of a victimless crime.

So these points here apply more to the emergence or the potential influence of economic factors. These will not apply to the hard-core underground economy that's always existed and has always been reasonably substantial. One of the points I'll point out as we go along and one of the things is that it's very, very hard to distinguish between these factors and the other factors that have traditionally been there—for example, just illegal activities.

I'd like now to talk about GDP and tax revenue growth, because, from a public policy perspective, one of the major issues here is simply how the underground economy and how any changes in the underground economy will influence the province's fiscal resources.

I think everybody is familiar with the general picture of what's happened to taxes and to nominal GDP, with nominal GDP having a dive and tax revenue diving more substantially than it's been in the past. There's no question that revenues have performed at below expectations. Getting at the root cause of this is very, very difficult.

Let me explain a couple of things. As you all know, the minister has recently made statements about what's happening for the past year's deficit, and this reflects to some extent the revisions in data from an historic period. Basically, the data and the revenue collection material are still coming in from a past period. It's very, very hard to figure out exactly what's happened in the past, let alone what we're likely to see in the future.

There's no question that the vast majority of the change in tax revenue growth has been driven by macroeconomic factors and by changes in the structure of the Ontario economy. There's a real sense that the Ontario economy is changing substantially. As it changes, this will have a really big impact on how revenues are collected and where revenues come from. Distinguishing that from the potential impact of the underground economy is very, very difficult.

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A couple of things I'd just point out is that the underground economy is likely to be a share, possibly a small fractional share, of the overall decline; and secondly, that broad revenue declines are shared across Canada. This is not an Ontario-specific problem. In terms of new revenue numbers, which I expect people will be interested in, just save the questions for a little bit later. They will be available in the second quarter finances.

What I'd like to do now is turn the page to a very specific table on taxes, since I know that this is an important issue and one that I think deserves to be treated very directly here. I know that there are a number of hypotheses around about what drives the underground economy. What I'd like to address right now specifically is the tax issue. Without necessarily commenting directly on the role of taxes in the underground economy, I'd like to show how Ontario stands relative to other provinces.

Do people understand the table? The rank here—

Mr W. Donald Cousens (Markham): Is there a date on that table? What date was it?

Mr Wallace: Up to date; it is accurate as of today.

Mr Cousens: So Canadian Club is \$20.95 today?

Mr Wallace: As far as we understand.

Interjections.

Mr Cousens: Normally, I buy it from Gerry, and it's cheaper.

Mr Wallace: Well, then, Roy is going to talk to Gerry.

Mr Gerry Phillips (Scarborough-Agincourt): It's a smaller bottle.

Mr Wallace: So, first of all, we have simply the tax area in the first column. The second column is the Ontario rate. The third column, which is the tricky one, is the rank in Canada. It's only tricky because rank can go either up or down. In this case, "1" means Ontario would have the lowest tax, and then of course the highest and the lowest just to give a sense of the overall range there.

So in terms of the RST, which has been at the same level for some time, Ontario has an 8% retail sales tax. It's the fourth-lowest in Canada, so within the norms. It's substantially lower than Newfoundland and obviously, as people from the west continually tell us, considerably higher than it is in Alberta.

In terms of corporate income tax, again, much the same picture. You see the Ontario rate across.

The PIT rates are of course substantially more complex because they apply to different tax brackets. For the combined, it's in the middle. In terms of lower-income workers, Ontario is the third-lowest. In terms of middle-income earners, we're in a range within that context, from third to seventh. We have the highest or next-to-highest taxes in terms of surtaxes in very-high-income taxes.

In terms of how you interpret the PIT tables, you'll have to ask that of yourselves and of other witnesses. But clearly Ontario is within the ballpark of the rest-of-Canada experience.

In terms of cigarette taxes, and I think this is an important chart in terms of what we'll talk about in a couple of other slides as well, it's simply that Ontario is the second-lowest in Canada. Alberta and Newfoundland again set the boundaries. The tax is \$2.04, and we'll talk about that in more specific charts a little bit further on.

In terms of alcohol, on beer we have the lowest; wine, and this is on Ontario wine, we have the second; Canadian Club, we're the third. Again, it tends to be Newfoundland and Alberta that set the boundaries, but just to give you some sense of how we stand in terms of aggregate taxation and in terms of specific tax areas. I guess the bottom line here is that Ontario tax rates are not out of line with other provinces.

One thing that I would encourage you to think about in terms of public policy implications for this is that, as you think about approaches to this, we have to remember that what Ontario might do with its own tax structure would have implications for what happens in other provinces etc, and there is some need for interprovincial comparability.

I'd like now to turn to tobacco taxes. This is much the

same thing, just made more specific on a very key area. I think everybody is aware that tobacco smuggling is seen as an increasingly serious problem. It's thought to be most severe in Quebec. It certainly is a trans-Canadian problem. It certainly occurs in every province.

I think the mechanism for this is relatively well understood. Canadian cigarettes are shipped tax-free to the US and then these are smuggled back into Canada. I think people are familiar with the statistics on this area, but export sales of Canadian-manufactured cigarettes to the US have been up substantially. For example, they reached nine million kilograms in the first six months of this year compared to about 1.6 million kilograms for the full year of 1990.

As I mentioned earlier, the taxes have been stable over the last couple of years, so one of the things here is simply that the networks may be becoming entrenched and the distribution channels etc may be building up. So there are going to be some leads and lags in this area of the economy just as there are in any other areas of the economy.

One thing that I would point out about tobacco taxes, and this applies to the other taxes as well, is that there are a lot of jurisdictional and complex issues here.

First of all, border enforcement, as we know, is a federal issue. It's under federal control. Without being overly specific here, I think the mechanism by which many of these cigarettes are coming into Ontario is relatively well known. It's a mechanism over which the province of Ontario does not have any direct control.

Secondly, it's very important to look at the specifics of the chart, and I'll draw your attention to the federal and Ontario shares. It's the second column of the chart. With the federal share of the taxes on a package of cigarettes at 39.5% and the Ontario share at 34.4%, what this means is that the federal taxes account for the largest share of the cost of each carton of Ontario cigarettes. It also means that if Ontario were to reduce its tobacco tax to zero or something approximating zero, it may well be that smuggling cigarettes would still remain profitable. It may well be that not only could cigarettes be smuggled into Quebec and other provinces, but they could even be smuggled into Ontario at a profit.

Of course, we don't know what the smugglers' bottom lines are etc—you may want to ask further questions about that—but clearly, there's at least the potential that Ontario cigarette taxes could be eliminated and you would still have some aspects of this particular problem. Again, it points to the underlying complexity of the issue and the notion that clean or easy approaches that would involve only one jurisdiction might not necessarily solve the issue.

I'd like now just to expand on that one more time. Again, I apologize for spending so much time on this specific issue, but I think the tobacco taxes are seen as a real issue and are certainly seen as a symptom of the overall underground economy issue. It's simply that in a provincial comparison, breaking it down more specifically, you can see the ranges, again the main point being that Ontario is actually second-lowest.

What I'd like to do now with my final slide is raise the issue of jurisdiction and talk about this briefly. This is an area that both federal-provincial and international relations fall into quite heavily. I think there's no question that in terms of the issues we raised earlier, every government has some stake in them. In terms of public safety and law enforcement, border control is primarily a federal responsibility. It includes the RCMP, Canada Customs and the Coast Guard as well. Also, public safety and law enforcement are areas of the OPP, the QPP and other provincial police forces and of course municipal police forces as well. As Roy will talk about, this is an area that requires some considerable coordination. We've made some strides in coordination, but clearly it's an area where there are substantial overlaps.

In terms of border integrity, it remains very much a federal area. It also involves, quite frankly, the US federal and state agencies. Much of the cigarette smuggling may not violate US laws or may only incidentally or tangentially violate US laws, but it's still an international issue.

In terms of sales taxes, there are sales taxes set by both senior levels of government, and the collection processes are of course different. As I've talked about with the tobacco taxes, they interplay against each other, but a unilateral move by either group would not necessarily address underlying issues.

In terms of personal and corporate taxes, again, there are overlaps in those areas; and finally, the specific tobacco taxes.

What I'd like to do is just spend a couple of minutes, before I turn it over to Peter Spiro, talking about the main message, which is simply that the underground economy has been very, very hard to get a handle on. The ministry and the government have taken it very, very seriously. We're not giving you specific numbers on this, not because we don't want to but because frankly we don't have reliable statistical evidence on the tax policy side in terms of the losses or, on the aggregate side, in terms of the absolute magnitude of it. As Peter will talk about in a few minutes, the number of studies we have on this area, which is a relatively new area, oftentimes show substantial variation.

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The second key point is that it's very complex in terms of tax policy and in these other areas. Not only is it complex in terms of what may be driving the underground economy as to the interplay of macro factors, the interplay of tax factors, the interplay of simply illegal activities existing—all of those factors will be in there and it's obviously impossible to sort out between them in any reliable statistical sense—but it's also complicated by the jurisdictional issue and by the fact that you have two and in many cases three levels of government operating within these varied contexts. Even if all three levels of government takes these issues very seriously, we have to recognize that this is something that has to some extent emerged and that the concerns on it are relatively recent. This is the first time, as far as I know, that parliamentary committees have been looking into it etc. I'm not saying it's brand-new, but it is something that is just emerging.

Finally, and this will lead to Roy, it will simply be that the government of Ontario is making a number of steps in this area, and Roy will talk about those later. I don't want to leave that as a main message yet because it's still to come in the presentation, but that is something we'll talk about.

I'd like to turn it over to Peter Spiro now. As I mentioned before, Peter Spiro, in addition to his work with the Ministry of Finance, has I think established a reputation as being an expert in this field, as somebody who has done some additional work with his study on this area and who has also done a substantial amount of research in terms of the literature and in terms of understanding how Ontario relates and how the situation in Ontario relates in both macro terms and in international terms. With that, I'd let Peter speak.

Mr Peter Spiro: Thank you, Peter. I hope I can live up to that introduction.

The Chair: Excuse me, if I could just interrupt for a minute. I certainly want to allow you to continue your presentation until it's completed, before we get into major questioning. However, Mr Phillips has indicated he'd like to make a comment.

Mr Phillips: Very briefly, Mr Chairman, I have a conflict this morning. The Provincial Auditor's in another committee with an area of intense interest to me. In case I didn't get a chance to thank the staff personally for what already is a very professional presentation on very short notice, because the presentation may not be over before I want to leave, I want to thank you. I echo the comments that you've made, and that is that we're dealing with a new and complicated area with no obvious, easy solutions. I think the committee is very much aware of that and I think we're off to a good start with this presentation.

The Chair: Mr Spiro, if you'd continue.

Mr Spiro: There is considerable international literature on the subject of the underground economy and I want to take you through it a little to give you a sense, even though it is a very complicated issue and one where we can't get any precise measurements, a flavour of the types of approaches people have tried to use to measure the size of the underground economy. On page 11 I've summarized the four main ones. This is not even a complete list; there are a variety of other less common methodologies.

The first one, the survey methodology, can be a useful guide to the scope of the underground economy, especially to public attitudes about the willingness to evade taxes and so on. It's not really a good way to measure the total size of the economy. Some people who particularly resent taxes may volunteer that they don't like them and sometimes evade them, but you won't find that the person who's evading a couple of hundred thousand dollars of taxes is going to come forward and tell the anonymous surveyor that he's done that; he'd be pretty naïve to believe it's not a government spy or something. So it's not a good aggregate methodology although it has some uses.

Another method, which I mention mainly because it's

been used by Statistics Canada, not because I think it's particularly credible, is the kind of detailed analysis of the labour force, where they go through and count how many people there are in different occupational groups and then just make guesses about what proportion of people in those groups are likely to be involved in the underground economy. Using this kind of methodology, Seymour Berger of Statistics Canada came up with the estimate that it's something on the order of 2% or 3% of GDP in Canada, which is the lowest estimate for Canada. You'll find that whenever an official government statistical agency does an estimate of the underground economy for its country, it's always the lowest estimate. They don't like to admit that there's some part of the economy which they can't measure.

The third methodology, which is in many ways the most attractive, is one which isn't available for Canada; nobody has gone to the considerable expense of doing it. This is to do intensive audits of a scientifically chosen random sample of taxpayers. This is done once every 10 years by the Internal Revenue Service in the United States. You're probably aware that there's always tax auditing going on, and we have it in Ontario and Canada as well, but the auditors want to get the maximum return for their money ordinarily, so they focus on taxpayers, as Roy will tell you, who are the most likely to be cheating, who have the largest incomes and therefore are likely to provide the largest payoff for the audit effort. That way, you don't get a good cross-section.

What the US Internal Revenue Service does every 10 years is this scientific sampling, where it even focuses on very small-income people, people with very low incomes who ordinarily would not be audited. It tries to dig around for all kinds of people engaged in part-time gardening and who knows what else who have never even filed a tax return. You may question whether they can really do that, but anyway, they attempt to do it. I'll get into that in a bit more detail shortly.

The fourth methodology, which is the one which is most widely used and most widely available for Canada as well, is to analyse the amount of cash in circulation relative to other financial magnitudes. The logic of that is that people engaged in the underground economy almost always use cash because it doesn't leave an audit trail. There is some talk of people involved in the underground economy using barter. My hunch is that that's not a very large part of the total. There's no particular advantage to bartering if you're in the underground economy. Cash is always much easier to use than to find somebody else who has what you want. It's like the story that barter is where the naked farmer has to find a hungry tailor, that kind of thing. So you occasionally find that, but it doesn't occur that often.

To give you a sense of how uncertain the measurement is, the table on page 12 has a survey of studies from a wide variety of countries, from a recent book by somebody named Dallago. You can see this isn't completely comprehensive; for example, for Canada he only found two studies, whereas in fact there are quite a few more than that. But if you look at the per cent of GNP and the low and the high column for some of the countries,

there's an incredible range. If you look at Italy, where 18 studies of the underground economy have been done, the low range is from 6% of GNP whereas the high estimate is up at 30% of GNP.

Incidentally, the Italian government a few years ago officially declared it to be 18% of GNP, and it consequently revised up its official GNP. So if you ever see data that shows that Italy has dramatic productivity in economic growth in the 1980s, you may question that. It's just because they decided to add back this 18% which they assumed wasn't in there before.

For the United States there have been a lot of studies, 15 in total, that range from 1.4% to 33%. You might throw up your hands when you see numbers like this. You'd say this must be completely worthless if people give such widely varying estimates. There's something to that. I'd like to think that when you look at these studies and evaluate them logically, you can pick out ones that are more reasonable than others, and that gives you some ability to narrow this range down from the very wide range displayed in this table. Nevertheless, even when you do that, I would admit that there's a great deal of uncertainty around it.

Chart 13 does attempt to do this. It's partly based on a recent article in the Economist magazine which focuses in on recent, credible studies for different countries and gives you a sense of the size of the underground economy in different countries as a per cent of GDP. This term the "black economy" is an unfortunate term. It apparently is the British term for the underground economy, so we just copied it from them. You can see again the perception that Japan and Switzerland are at the low end of the scale, essentially have the most law-abiding populations, whereas some of the warmer countries of Europe have a much higher degree of tax evasion.

I want to focus in a bit on the US Internal Revenue Service audits which I referred to earlier because I think they are among the best studies of their type. Unfortunately, there's nothing comparable available for Canada. The middle part of this chart shows the results of their latest audit, which was done in 1989. Based on their random sample audits of different types of taxpayers—or non-taxpayers, I guess is perhaps the more appropriate term—for the category that's referred to as informal suppliers, 89% of their income was not reported to the tax authorities. Informal suppliers are the people who work part-time doing home repair, shovel snow from your driveway, do gardening, things like that, so very small-scale businesses that don't have a fixed place of business, just sort of operate out of a truck or something. For that group, only 11% of their income was reported to the tax authorities in the United States.

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Turning to small businesses that do have a settled place of business, the sole proprietors, which would be like very small retail establishments and so on, 52% of their income was reported to the IRS, meaning 48% was evaded. For small business corporations 40% of the income was reported; for business partnerships 30%; for rental income 17%. Again, these studies do seem to be fairly carefully carried out. Some people are sceptical

whether even these can be accurate. Even when audits are carried out, there's certainly always a disagreement between the person audited and the auditors as to what's the correct value. Some of the techniques involved are fairly esoteric, so there's a margin of error here too, although one would hope that it averages out when you have a large sample like this. They do 55,000 audits, I believe, in order to get these results.

It's hard to say to what extent these particular US values are appropriate to Canada. Obviously, we have some similarities in our economy. On the other hand, the US economy is always considered to be a little bit less law-abiding and more freewheeling than the Canadian economy. These auditing results incidentally imply that the underground economy's at least 8% of GDP in the United States. That, of course, may still understate it considerably, because obviously tax auditors are not going to be able to successfully get hold of people involved in drug trafficking and illegal immigrants and so on.

The next chart looks at the question of, to what extent does the level of tax rates contribute to tax evasion and the size of the underground economy? That's a subject that's much less well known than one might suppose. Economists have all kinds of empirical estimates of virtually everything under the sun, so you would think there'd be dozens of estimates of this around also, but in fact there aren't.

In fact, the only really good empirical study of this is by somebody named Charles Clotfelter of Duke University, who used to work for the IRS. He used this data set I was just referring to. That's really the reason it's so hard to do an empirical study of this: In order to know how much tax rates affect tax evasion, you have to be able to correlate tax rates with the amount of tax evaded. Clotfelter had access to this detailed Internal Revenue Service data set of the amount of evasion by different people at different income levels and in different types of businesses, and he correlated that, using statistical techniques, with the tax rates faced by the different individuals. He had actual individuals, a set of thousands of individuals, the percentage of income they evaded, and he had the information on the tax rates they would have been paying if they had voluntarily reported their incomes.

What he found out was quite interesting. There is a statistically significant relationship, but what's called the elasticity is relatively low; in fact, he estimated it to be something on the order of minus 0.2%. So if tax rates in the United States had been cut by 10%, he estimated, then it would have led to a 2% increase in voluntary reporting of income by taxpayers, so in effect you would have a large revenue loss. You would have some additional honest taxpayers or people who would be slightly more honest, but the increase in honesty as a result of this would be far offset by the revenue loss, due to the fact that of course everybody's getting the tax cut, not just the people who were previously evading their taxes. So he decisively ruled out the supply-side Laffer curve type of notion that a cut in tax rates would actually lead to an increase in revenue, and it should be pointed out that at the time that he was doing the study, US tax rates

were quite high. It was based on the time when the top marginal tax rate in the United States was 70%.

That brings us to the interesting issue of which kinds of taxes are more relevant to the size of the underground economy, which one drives people more into the underground economy. Is it marginal personal tax rate? Is it overall taxes and so on? Again, one can't really be very categorical about it, because the data just aren't terribly good, but with some of the monetary studies that have been done, as I'll mention, the technique they use is that they do a statistical fitting between the amount of cash in circulation in the economy relative to total measured expenditure and the tax rates.

They found that average tax rates for the economy were more relevant than the top marginal personal tax rate. The explanation for that would appear to be that the types of people who have the greatest opportunity for engaging in the underground economy are people in relatively small businesses. They're people who, even if they were to fully pay up all the taxes they owe, would not be in the top tax brackets. They're people with relatively low incomes. It's sort of the middle range of taxes that's more relevant for that. Conversely, the people who have high marginal tax rates, the people with the highest incomes, tend to be highly paid professionals and executives who just don't have the same scope for engaging in the underground economy, for one reason or another.

The next two pages contain charts which combine information from the chart that was shown earlier, mainly the Economist magazine's estimates of the underground economy as a percentage of GDP in 14 developed countries, and correlate it with these different measures of taxation. The first chart, on page 16, attempts to correlate the size of the underground economy in each country with the top marginal personal income tax rate. As you can see, it's a very rough scattering. There's really not very much correlation. Japan has the highest marginal personal tax rate at 75%, and in spite of that, most people who've looked at Japan believe it has a very small underground economy.

Turning over to the next page, you get a somewhat different picture, and this ties into what I said earlier. You can see that Japan, although it has a very high marginal tax rate for the highest income earners, has quite low taxes for ordinary working people. Total taxation in Japan amounts to only about 30% of GDP, in spite of the very high top-end tax rate.

Again, even in this diagram there is no perfect correlation between taxation as a percentage of GDP and the estimated size of the underground economy, but this is clearly because of the setup for outliers, the southern European countries, where tax evasion is considered to be much greater. If you leave those out, you can see that there is a tendency for higher taxation as a percentage of GDP to be associated with increases in the underground economy. You have to take this with a considerable grain of salt because just simply the measurement of the size of the underground economy in each of these countries covers a very wide range. Here we've picked the middle of a range.

Turning to the next chart and the main method that's being used in Canada to estimate the size of the underground economy, this is the monetary methodology. Within this broad class, there are a variety of subgroups. The first one is what's called the transactions approach, which is still sometimes used but I would say is, on the whole, somewhat discredited. It gives extremely large, implausible estimates, and it's based on a very questionable methodology which essentially takes some base year back in the 1930s, when they assumed there was no underground economy. It looks at the total volume of financial transactions and assumes there is a fixed relationship between financial transactions and the size of the total transactions.

With this methodology in Canada, you get a value of the underground economy of about 22%, which seems implausibly high. In the US, one researcher using this methodology has gotten an estimate of, I believe, as high as 33%. The logic of the methodology is fairly dubious, because it does assume that over decades there's an absolutely rigid relationship between financial volume and actual transactions in the economy, and the numbers themselves are very hard to believe.

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The second one mentioned here, the currency ratio approach, seems intuitively more plausible. It was pioneered by Vito Tanzi of the International Monetary Fund, and it's the one that I referred to a bit earlier where he actually looks at the ratio of cash in circulation relative to some other measures in the economy and correlates the changes in cash with changes in tax rates.

The implications that Tanzi found for the United States again have this corroboration because it yielded estimates for the size of the underground economy which are quite similar to the ones that derive from the Internal Revenue Service studies. So that gives a considerable degree of comfort around it, although his studies actually were done quite a number of years ago; they only go up to around the late 1970s.

A number of Canadian studies have adopted this methodology. The most prolific researchers on this are Professors Mirus and Smith of the University of Alberta, who have done a number of studies over the past two decades, the most recent one just this past August. Back when they studied this in the distant past, using Tanzi's methodology, they found that in the mid-1970s the underground economy was only about 7% of GDP in Canada. Repeating this same type of study more recently, they found that by 1990 it had risen to 15% of GDP.

Again, 15% is certainly not out of the question; I would question it. One of the biggest shortcomings and problems of this particular methodology is the speed at which money recirculates, which is called technically the velocity of money. Basically, when a person gets a certain amount of cash he has it for a while and respends it, so the money is circulating through the economy fairly rapidly. The measurement for it in Canada is essentially that every dollar, if you take the ratio of gross domestic product to actual cash outstanding, turns over 21 times per year.

Mirus and Smith have implicitly assumed that this rate

of turnover of cash is the same in the underground economy as in the aboveground economy. That is a very questionable assumption because obviously in the aboveground economy, people get cash, they do use cash for very small transactions, but most of the time they use credit cards, cheques and so on. When somebody receives his income, a person who is employed by the government or whatever, and gets it deposited in his bank account, he never even sees it in the form of cash. To the extent that you can afford to save any of your income, you have it in a savings account on which you earn interest; you might buy mutual funds for it and so on. So you don't use cash as a store of wealth, effectively.

However, when somebody in the underground economy is prosperous and his income is greater than his expenditure and he wants to put aside something for his old age, then he has to keep it in a safety deposit box in the form of dollar bills, hundred-dollar bills, thousand-dollar bills, whatever, in the safety deposit box.

There is also the phenomenon known as money laundering, where they try to transfer this cash and get it into what looks like some legitimate form of income, preferably one that has a lower tax rate, like capital gains or something. So eventually they perhaps do succeed in laundering some of the money, but obviously it's going to take longer. So the velocity of circulation of cash in the underground economy is clearly slower than in the aboveground economy; we have absolutely no way of knowing how much slower.

So for that reason, I would say that the estimate by Mirus and Smith of 15% of GDP for the underground economy is more like the high end of a range estimate, and I could see the plausible range for the size of the underground economy, based on monetary studies, to be about 8% to 15% of GDP in Canada. That's unquestionably an extremely wide range, which, on the one hand, one might say is not a very useful guide. But I would say what we can say with a considerable degree of confidence is, whether it's 8% or 15%, it's very substantial; 8% of GDP is very substantial; 8% of Ontario's GDP is \$22 billion. So it's large, no matter how big it is. The absolute size doesn't really matter, because we know that no matter how hard we try we're never going to find all of it. It's not there for the picking. It's not really a cash cow that we can tax, because we're never going to locate all of it. Some people are always going to be able to get away with it.

We can say with a reasonable degree of confidence that it has gotten larger. The underground economy as a percentage of the total economy has gotten larger over the past decade and a half at least and, especially in the last few years, there has been an increasing amount of evidence of growth in the size of the underground economy. That's some research I've done myself, including an article recently in the *Canadian Tax Journal*.

One of the things that I believe has triggered substantial growth in the size of the underground economy recently is the introduction of the GST, along with the recession, which Peter Wallace referred to earlier. Both of them have been important factors in the past few years. With the GST, it's been a completely unpredict-

able, one might say, and unusual psychological reaction that's out of proportion to the size of the tax. The federal government tried to make the case that it was even revenue-neutral, that it wasn't raising any net amount of money, that it was just replacing another tax.

One can quibble about that, give or take a few billion dollars, but to a substantial extent that was true. Somehow it really struck a nerve with the public. Perhaps they were unaware or didn't believe it was replacing another tax, but in recent history, no tax move has generated as much resentment. A recent Toronto Star poll showed that 91% of the Toronto Star's readers attempt to cheat on the GST. Obviously, for the Globe and Mail it would be less, but still it's a substantial percentage of the population.

From the point of view of businesses—service providers, home renovators—there's always been a big incentive to evade taxes because there's a large chunk of income tax they avoid by doing so. Before the GST had become such a focus for resentment they might have faced some hostility from the public, who felt this wasn't a legitimate thing to do, but the resentment of the GST has to some extent made the public more eager to go along with the vendors who attempt to work in the underground economy.

Again, from the point of view of auditing and enforcement, the GST is clearly a much more difficult problem. The bulk of manufacturers' sales tax was related to 75,000 taxpayers. I've seen various estimates for the number remitting the GST—from one and a half million to two million. It's hard to believe there are two million businesses in a country of 27 million people, but some people claim there are that many.

The federal government tried to claim at one point that the GST would actually reduce tax evasion because of the paper trail. The person who buys inputs from a supplier gets to deduct the GST that he paid on the inputs from the GST that he remits to the federal government. That is not likely to be a major factor, because most businesses already wanted receipts from the point of view of their corporate tax and so on.

What does change is that for all the businesses that sell to the final retailer, of course, there's no advantage there to having a GST receipt. For all the businesses where there's a large markup between the inputs and the sale price, which essentially include all services, the GST has increased the incentive to evade taxes.

The methodology I use for estimating this is shown on the next slide, page 20. Looking at the ratio of cash balances, that's total cash in people's pockets and purses, in the cash registers of businesses, and the ratio of that to reported consumer expenditure. It's shot up dramatically starting exactly in the first quarter of 1991, when the GST was introduced.

The ratio of cash to total expenditure has been declining steadily since 1953, which is as far back as we have data on it, and that's because people are no longer paid in cash. If you go back to the 1950s, a lot of people would get their pay in cash and that's why you had payroll robberies. You never hear about payroll robberies any more because everybody's paid by cheque or even direct deposit into their bank accounts.

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There are credit cards—that's a big phenomenon—all kinds of financial innovations, daily interest chequing accounts and everything, that reduce the incentive for people to carry cash around with them; automatic teller machines, which means that if you run out of cash you can get more any time of the night or day so that, again, you don't have to take out a large amount of cash when you get paid or anything.

This has been declining very steadily for four decades or so and all of a sudden in the past two years you've had the biggest increase in cash outstanding, as I say, in the 40-year history for which we have these data. There is a bit of a problem in imputing from this how much the underground economy has grown because, along with this happening, we've also had declining interest rates. When the interest rates that people receive on their bank deposits are lower, people who get cash aren't in such a hurry to rush to the bank to deposit their money to earn interest. It's not likely to be a big phenomenon because people don't like to have large sums of cash around, unless they're in the underground economy, just from the point of view of security purposes. That does create some problems.

There are a variety of statistical problems in imputing this directly. I've used a fairly modest estimate which, as of mid-1992, showed about a 0.8% increase in the size of the underground economy as a percentage of GDP. Since then, to the middle of 1993, that amount has virtually doubled again. That would imply that since 1991 the increase in the underground economy has been something like 1.5% of GDP. Some other people who've looked at this data suggest it's even more. There's a great deal of uncertainty. Generally, I find I'm at the conservative end of the estimates on this, the low end of the estimates. I see Mr Cousens smiling at that term.

Mr Cousens: You don't hear that word too often any more.

Mr Spiro: Because of this problem, especially when you've had a big increase in the underground economy, a lot of the people who have received cash will be hoarding it. It's not necessarily all an increase in transactions; it may just partly reflect the fact that the people who've entered into the underground economy are hoarding more of it. There's a great deal of uncertainty about how large it is, but it is large. It's a significant problem and it's an increasing problem. With that, I'll turn it over to Roy Lawrie.

Mr Lawrie: I thought the committee might well run into some definitional problems with the term "underground economy," so I start with my own understanding of the term as a tax administrator rather than as an economist. As you'll note, this is a broad definition including all forms of non-compliance with tax statutes except unintentional errors. The reason I have included failure to pay in the definition is that tax revenue isn't counted in the public accounts until it's deposited in the consolidated revenue fund, so unpaid tax debts, particularly if they are on the rise, contribute to the province's deficit in current circumstances.

To the extent that these debts have been collected from

the public, as in the case of retail sales tax, but not remitted by vendors, they are obviously being put to other uses which are not authorized by the statute.

The second slide deals with collections and shows the accounts receivable for the largest sources of tax revenue administered by the Ministry of Finance. The largest source of provincial tax revenue is of course personal income tax, which is run by Revenue Canada under the tax collection agreement. As you'll note, there's been a considerable rise in retail sales tax and corporations tax accounts receivable in the three years since the effects of the recent recession started to show.

The government's response, announced by the minister in his 1993 budget, was a resources-for-revenues program known as Project Fair Share. The program consists of about a one-third increase in the collections and audit staff of the ministry, designed to improve the enforcement of existing tax law. There were two other thrusts to Project Fair Share: a loophole-closing and enforcement powers initiative, and a new publicity policy for those convicted of tax evasion, which I'll cover later in the presentation.

The additional 43 collection staff are now all on board, the positions having been filled entirely from surplus lists arising from the government's downsizing initiatives. A small number are still in training, but the new staff have already brought in over \$3 million, principally in retail sales tax unpaid accounts.

The ministry is currently midway through a six-year program to re-engineer our computer systems. The program was needed to replace the existing statute-based mainframe systems, particularly the corporations tax system, which is over 25 years old and which now requires some manual processing for over 50% of its workload. The main impetus of the re-engineering was to cope with rapidly increasing workload, a 40% increase over the last four years, in the face of constrained resources.

The program has already paid off in terms of policy flexibility with the announcement of health tax for the self-employed in the 1992 budget and this year's announcement of the corporate minimum tax, neither of which would have been possible with the existing systems.

We're in the process of establishing a functionalized collections branch. Collections activity used to be statute-based, and each of the four tax branches had its own collections officers. As part of our re-engineering project, collections staff will all report to a collections director and their operations will be consolidated into six locations across the province instead of the present 14. A new, fully automated collections system is nearing completion, and the transition should be essentially finished by the summer of 1994.

The consolidation of collections operations has allowed us to increase staff-to-supervisor ratio substantially, thus improving cost efficiency.

With respect to other jurisdictions, we have border collection agreements for provincial taxes with Canada Customs with respect to tobacco tax, alcohol levies and

importation of motor fuels by non-registered importers. We already have salvage agreements with Revenue Canada with respect to bankruptcies and insolvencies and expect these to be extended to cover GST and health tax in the near future.

A recent example of cooperation with another government agency was finalized with the Ontario Liquor Licence Board in July of this year. Section 6 of the Liquor Licence Act requires the licensee to be financially responsible in the conduct of his or her business affairs. The board has interpreted this to include compliance with the Retail Sales Tax Act.

Although licensees make up approximately 12% of the retail sales tax vendor tax role, they account for about 20% of delinquent payments. The old system involved a board hearing once an RST warrant had been lodged with the sheriff, at which time the licence could be revoked or suspended pending compliance. Although it was eventually effective in most cases, it was slow and very time-consuming.

In August, the board introduced a new system which requires an RST compliance certification issued by the Ministry of Finance prior to renewing, transferring or granting a liquor licence. Licensees with outstanding taxes can enter into a repayment arrangement filed with the board, adherence to which can become a condition of the licence.

In the two months since the introduction of the procedure, the collections branch reports over \$2 million in delinquent tax placed under collections arrangement and nearly \$300,000 actually recovered. In a full year, we expect the new procedure to result in the collection of at least \$10 million in delinquent retail sales tax.

Late filing and late payment penalties are inconsistent across statutes. In some cases, for example retail sales tax, the maximum penalty was not enough to encourage timely payment by large remitters. In the 1993 budget, the minister announced his intention to standardize such penalties across statutes. The new penalties will consist of 5% of the tax due by taxpayers, for example corporations tax, and 10% of tax collected, for example retail sales tax. Small penalties will not be assessed, and there will be no maximum penalties. If approved by the Legislature, these new penalties will bring these deterrents in line with other jurisdictions such as Revenue Canada and Quebec.

Also announced in the 1993 budget, the government proposes to introduce registered liens on real and personal property of tax debtors to assist in collections. The 1992 changes to the federal Bankruptcy Act removed the provincial crown's preferred creditor status in bankruptcies. The proposed lien provisions across all statutes will give provincial tax debts secured creditor status in such cases. Since clear ownership cannot be transferred when an outstanding lien is present, the liens are expected to assist collections in non-bankruptcy situations as well.

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Finally, daily compound interest on unpaid tax and also on refunds across statutes is also proposed in order to

encourage prompt payment, and again this would bring us in line with other jurisdictions.

The quotation on my third slide is from the 1990 report of the Auditor General of Canada, and it explains the rationale for tax audits. Putting it slightly differently, aside from recoveries resulting directly from tax audits, indirect revenue is generated through increased taxpayer compliance induced by perceived prospects of detection through audit activity. The higher the level of audit coverage, the greater the taxpayers' awareness that they may be detected if they don't comply fully with the law.

The statistics for audit recoveries per audit tend to confirm that voluntary compliance has declined in recent years. The trend of increasing average tax recovered per audit is expected to continue in the current fiscal year, as our audits, particularly on corporations tax, lag well behind current filings.

An additional 107 audit positions were funded under Project Fair Share. Three quarters of these positions have been filled through OPS recruitment, including some assignments off the surplus list. However, as professional accountants are required for the remaining positions, external recruitment is planned for the balance.

There have been very few studies of the effects of tax audits on voluntary compliance. Probably the leading paper is one by US professors Dubin, Graetz and Wilde which appeared in the December 1990 issue of the *National Tax Journal*. The paper studies the effect of a dramatic decrease in IRS audit rate of individuals for US federal income tax over the 10 years 1977 to 1986. The audit coverage rate declined from 2½% to just over 1% over the 10-year period. The study concludes that had the 2½% rate been maintained, additional direct revenues of \$2.6 billion would have accrued, with additional indirect revenues of \$15.6 billion over the period, a ratio of six to one. The combined effect would have increased total reported taxes by about 4.6% over the period, far exceeding the savings and administrative costs achieved by the cuts in IRS resources.

Similarly, there appears to be little research on the ideal level of audit coverage. The Provincial Auditor, in recent audits of the corporations tax and retail sales tax branches, has suggested a 5% rate as a worthwhile target. While seeing no reason to disagree with this figure, we feel it requires modification for certain other factors.

For example, under exchange-of-information agreements we receive details of audit adjustments made by Revenue Canada to the income tax returns of corporations. With a limited desk audit of capital tax and provincial tax incentives, we use this information to issue corresponding reassessments of corporations tax. The arrangement is reciprocal. We're currently negotiating a similar one in respect of employer health tax and Revenue Canada's payroll audits. Eventual exchange of audit information on health tax for the self-employed and retail sales tax vis-à-vis their federal equivalents have also been discussed. I should point out, however, that due to differences in tax base, particularly in respect of GST and RST, audit information exchanges have less value than in the case of corporations tax, where the tax bases are almost identical.

With regard to improved methodology, we planned the use of CAATs, or computer-assisted audit techniques, as part of our re-engineering project. We have also experimented with joint audits of large corporations in the Toronto area with Revenue Canada. A reciprocal arrangement to review each other's audit working papers prior to audit also exists so that duplication of audit effort is avoided. Finally, we intend to carry out a pilot project of combined retail sales tax and employer health tax audits once we've gained a year's experience in audit of payrolls.

It's a common saying in tax administrations that the best way to evade taxes is not to join the tax-paying club in the first place. While some of the underground economy involves underdeclaration of income, second job paid in cash, that type of thing, or underdeclaration of taxable sales, particularly where there's a high volume of cash sales, non-filers are also a significant part of the underground economy.

The employer health tax branch was recently authorized to establish an identification and compliance group. The duties of the I & C officers will be to identify those who should be on the tax roll for any of the taxes administered by the ministry and require compliance under the enforcement powers of the statutes.

The main way in which they'll achieve this will be to cross-check our tax roll with various third-party data sources, some of which are named on the slide. We've discussed an exchange-of-information agreement with the Workers' Compensation Board, the Liquor Control Board of Ontario, the Liquor Licensing Board of Ontario and with Revenue Canada excise branch in relation to GST. We anticipate the tax roll comparison will result in identification of non-filers for all parties involved.

I & C officers will also make field visits to businesses to ensure compliance. Retail sales tax branch carried out a compliance blitz in selected areas of the province in 1987-88, visiting all businesses in restricted areas to determine whether or not they were on the tax roll. Compliance was slightly over 99%, and the subsequent non-filers who registered as a result remitted about \$750,000 in back taxes.

To illustrate the administrative dilemma involved in enforcement actions like this, if instead the resources involved had been devoted to audits of vendors already on the tax roll, direct recoveries would have been five times greater. Clearly a balance must be struck between audits, which have demonstrable results in recovered revenue, and identification action, with less tangible, indirect effects on the integrity of the system.

Lastly, we're interested in the extent to which we can dovetail our I & C efforts with similar compliance work done by Revenue Canada, as there appear to be cost-efficiency gains for both administrations.

The top quotation of the next slide is from a 1991 paper to the Fair Tax Commission by Professor Kesselman of the University of British Columbia. As you may know, it's an extension of the rationale already discussed under "audit" in relation to audit coverage.

The second quotation is even more pointed and again

comes from the Auditor General's 1990 report on Revenue Canada taxation, which was critical of that administration's prosecution publicity policy.

In February of this year, Mr Laughren approved a new policy to publicize convictions for provincial tax evasion, failure to remit taxes collected, and fraud associated with grants, tax credits, refunds and rebates. Press releases containing factual statements of evasion cases are distributed on the day of conviction in the courts. Cases selected for publicity include those where the evasion totals over \$10,000, cases involving fraudulent practices known to be common or widespread, and those that are newsworthy because of unusual tax evasion schemes.

The purpose of the new policy is to act as a deterrent to those who are tempted to defraud the government, as well as to reassure honest taxpayers that they aren't expected to pay for the dishonest activity of a few. In the eight months since the introduction of the new policy, the number of informer calls to the ministry has increased by 293% compared to the prior eight months. The press releases were not at all designed to encourage informer calls. This appears to be a spontaneous reaction. The message that cheaters cheat us all has apparently struck a chord with the public.

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The minister has also approved an annual tax enforcement bulletin which will contain general descriptions of convictions and sentences imposed under ministry statutes or the Criminal Code. Names will not be published in the bulletin and specific locations will be given only if the offence occurred in a city with a population of over 100,000 people. The purpose of these limitations is to prevent convicted individuals from a second round of media attention. The first such bulletin will be released in the near future.

A change in the ministry's voluntary disclosure policy has also been made. Voluntary disclosures will now involve payment of outstanding tax and interest only, with no civil penalties for late payment or late filing. Reasonable arrangements to pay over time will also be accepted. With the proposed increase of late filing and late payment penalties to a flat percentage of the overdue tax, it was felt that their imposition would discourage disclosures. In order to be fair to honest taxpayers who pay on time, interest will still be charged on voluntary disclosures.

A final statistic on tax evasion cases again points to an increase in non-compliance. Four years ago, a case of retail sales tax evasion involved \$19,000 in tax on average. Last year, the average was \$84,000.

Mr Cousens: Say that again; sorry.

Mr Lawrie: Four years ago the average tax in a retail sales tax evasion case, the average tax evaded was \$19,000. Last year it was \$84,000 on average.

The final slide is a summary of the most important anti-underground economy measures announced in the last five provincial budgets. The measures listed under 1993 are still proposals at this stage, with the associated legislation still to be debated in the Legislature. I've referred to many of these measures in my presentation,

but I'd be pleased to answer any questions members of the committee might have about specific measures.

The Chair: Thank you very much for your, in my opinion, very comprehensive presentation. If I may, something just came to mind as you were speaking, when Mr Cousens asked you to repeat the average evasion case in dollars. Do you have the numbers of actual cases so that we could compute a total value on those evasion cases?

Mr Lawrie: I don't have the total amounts of tax evaded in each case, but there has been a rise in the number of convictions over the last three years. Charges laid in 1990-91 were 53, about the same in 1991-92, and last year went up to a total of 77, which is a 50% increase. The number of convictions has also been rising steadily over the last three years. It's gone from 44 in 1990-91 to 67 in the last fiscal year. Incidentally, you haven't asked this, but voluntary disclosures have also gone up. There's been a 25% increase last year over the previous year.

The Chair: Thank you very much. We have probably about 20 minutes left, or maybe 25. We'll divide the time evenly between—Mr Sutherland?

Mr Kimble Sutherland (Oxford): I just want to ask first, I don't know whether we have it down on our agenda as to whether staff would be coming back this afternoon or whether they're available to come back this afternoon. I think originally we had anticipated about an hour presentation, but we're very thankful for the very detailed and thorough information we have here. I'm just wondering about getting a sense from the committee as to whether they may like that to occur, and whether they want to start questions now or whether they may want to wait for now and start questioning this afternoon when the committee reconvenes.

The Chair: Thank you, Mr Sutherland. That poses two questions. First of all, would the committee members like to have the staff back this afternoon? The question that would follow that of course is, are they available? To the committee members, would you like an opportunity for further questioning this afternoon?

Mr Cousens: I would support what Mr Sutherland is saying. You get into it now—it's been an excellent presentation, and if they're available to come back this afternoon, why not come back for a couple of hours this afternoon?

The Chair: Is the staff available?

Mr Wallace: We'll be guided by your wishes.

The Chair: Am I hearing the committee members correctly, then, that you would like to adjourn at this time and then come back?

Mrs Elinor Caplan (Oriole): Mr Chairman, as I'm not going to be able to be back this afternoon—I've a commitment actually out of town in London—I'd like to ask a couple of questions before we adjourn. I won't take long.

The Chair: Very well.

Mrs Caplan: The questions that I would like to ask relate to some of the data and the surveys that are

available that you've alluded to, and also there was an article in Maclean's magazine which quoted you, Mr Spiro, and the quote says, "I hesitate to talk on this subject because the data shows that the more people become aware that other people cheat, the more they cheat." I'd like to ask you if you could expand on that statement a little bit, and also what data or studies were you referring to when you said "the data shows"?

Mr Spiro: I might as well start with the second part first. There is quite a variety of studies that have been done, including some by psychologists and sociologists. Among other things, they use two methodologies.

One, they do the survey-type thing, where they ask people, "Do you cheat? What prompts you to cheat?" and so on. They even go to the extent of having university professors use their students as guinea pigs, where they give them monetary rewards, where they play these games and there are various ways in which they can come out with the biggest monetary reward, so they have this incentive to try hard and so on. They rig this thing so as to change conditions, including the perception of fairness of the tax system, the perception of, "Are other people cheating?" and so on. They sort of feed different individuals in the test different pieces of false information to change their behaviour and so on.

Both types of studies come out fairly strongly with the conclusion that people are more inclined to cheat when they think the tax system is unfair; among other things, that people pay different rates of taxes unrelated to the benefits they get back and so on. Of course, that's the problem and the researchers emphasize this, that fairness is in the eye of the beholder. A low-income person may think it's fair for a high-income person to pay a higher percentage of tax, whereas the high-income person may think just the opposite. So there's that aspect of it.

Again, there's the notion of, if people think they're getting value back from the government, they're more likely to pay up. But one of the things that's revealed in this is that if they think other people are not paying their fair share, especially through cheating but also partly if they think the tax system is unfair, then they are more inclined to cheat themselves. So there is a considerable amount of sociological-type evidence in this regard in the behavioural motivations.

As to the quote in Maclean's magazine, that's what that refers back to, that these studies have found this kind of thing, that once people find out it's widespread, they're more likely to engage in cheating. I guess at this point, whether I spoke about it or not, Maclean's was going to do a cover story, so I don't think it made a lot of difference.

One could ask that about whether this committee should be doing this and providing more publicity for it. But I think by now it's a fairly widely known and widespread phenomenon. It's had quite a bit of media attention in the past couple of years. So I don't think at this point we're going to tip the balance for too many people. I don't think at this point it's a major concern.

Mrs Caplan: One of the requests I'd like to make is that we've asked the research person, Ms Campbell, attached to and supporting this committee, to do a

literature review and to determine what studies might be available if committee members were interested, and perhaps you could provide her with the names of the studies, I think it would probably assist her in her task. The committee would appreciate that.

Mr Spiro: By all means.

Mrs Caplan: I'm particularly interested in the psychological and sociological studies as opposed to the empirical studies.

Mr Spiro: Yes. The Ministry of Finance library has a book entitled *The Psychology of Taxation*, which goes into this kind of thing, with all the abstruse psychological terms.

Mrs Caplan: I know there have been a number of books written. There's one that I'm thinking of—the name escapes me—which is the history of taxation and public response to it, and public behaviour and what happens when people lose faith in either government policy or value for money. I think it would be helpful if the committee at least had the opportunity—if I can remember the name of that book, I will also give it to the researcher.

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I think we have a lot to learn. Frankly, I have some concerns about the general list of avoidance initiatives that you have at the back, because when I compare that to the graph of what's happened to tax revenues, I think there's a very large question that perhaps we don't have the answer to, but I would like it if you could—on page 6, the graph shows that for a number of reasons, over the 1980s it seemed that tax revenue and nominal GDP lines trended in fairly close proximity to each other. There were ups and downs for a number of reasons.

Then around 1991-92, when you saw that very large drop in revenue, in fact it didn't trend with the line of GDP. All of a sudden, the differential between nominal GDP and tax revenue lines, at a time when government was significantly increasing the overall tax burden—we actually see a very large difference between the tax revenue line and the nominal GDP, for which I think we have to look for an explanation. You say it isn't all underground economy or cash economy or avoidance. I'd like to know how you explain that difference, particularly not only the absolute difference but the difference in relation to the two lines on the other side of the graph.

Mr Spiro: It's something we're actually attempting to study. It's extremely complicated. I don't say that as an excuse but there is, as we said earlier, evidence that the underground economy has increased, but at the same time this is the deepest and most prolonged recession since the 1930s. If you look, for example, at corporate profits as a percentage of GDP, in 1991 they went to their lowest percentage of GDP since 1932. We're trying to dig up data on it, because the income tax data come to us from the federal government and they come with a lag and it's a very difficult database to work through.

There is a perception that high-income people have suffered greater relative income losses in this recession than in previous recessions; all the phenomena of layoffs at high or white-collar levels, and generally investment

and business losses. It's very hard to sort out for that reason.

As I say, we're just starting to work on this database. Once we've had a chance to sort through this database, we'll have a better sense, because a large part of it is this structural change in the distribution of income, particularly related to the recession, that if you have corporate profits going down phenomenally, if you have the incomes of higher-income people who pay the relatively higher tax rates going down more, then you would expect the revenue to fall more than GDP. In that sense it's not surprising that revenue has fallen more than GDP in this recession. We just don't know to what extent the recession can account for that and to what extent other factors, such as the underground economy, might.

Mrs Caplan: For anyone who's following this or at some point reading Hansard, what I was comparing on the graph on page 6 of the ministry's presentation was the differential between nominal GDP, which stayed above the tax revenue line during the period of 1982-83 to 1984—you see a differential there which looks reasonable. Nominal GDP did drop and we know that was because of the recession that was experienced and the differential on the taxes.

Then all of a sudden we cross the line, is the only way I can describe what you see on the graph, somewhere in 1991, and all of a sudden there is not only a huge drop in revenue but in the relationship of the revenue to the nominal GDP. I'm glad to hear that you're studying it, but I think it has enormous implications for public policy. I'm wondering, as we're sitting here discussing attitudes and behaviours of people crossing the line between legitimate avoidance and evasion, are the two words, whether you share my concern about what is happening on that graph.

Mr Spiro: We are very concerned about it, no doubt about it, but again it's something that we have to study before we can really know what's going on with it.

Mr Wallace: I'd like to echo Peter's comments and say that we are very concerned about it.

I just want to make a couple of comments about the correlation. It's not the first time the lines have crossed, so the correlation is in many respects imperfect. Remember, there are tremendous leads and lags involved in this relationship. It's a very complex relationship.

The other thing that I'd really like to emphasize, and I think I mentioned it in the presentation but just to reiterate it, is that the structure of the Ontario economy has changed a lot during that period. If you lose a quarter of the manufacturing employment, all of which is good, high-wage, steady jobs taxed at source etc, and that's being replaced by other types of employment, with long lags, with people on unemployment or drawing other sources of income through that, you're going to get a real skewing, not necessarily of the traditional relationships between the economy—in other words, the economy may still be fundamentally driving the revenue numbers, and in fact it may be driving almost all of the revenue numbers. It's just that different aspects are driving it and it's the changing nature of the economy that may well be very near a full explanation.

The other point I'd point out is that there's no question that the underground economy, at least our sense of the underground economy, has increased. Whether or not it's increased sufficiently—remember, this is a marginal change on top of an already existing underground economy—whether or not that marginal change in a few visible areas like tobacco smuggling etc is able to account for even a small share of these massive numbers, and these are very, very large numbers here, is really open to question.

It remains our view, and this is a judgement call at this point, that probably it's the economic factors that are still driving the revenue factors. We're not denying that the underground economy is an important issue, because we are very concerned about it etc, but it's likely to be a secondary issue. I think that's something you'll want to explore extensively with other witnesses as well. I think that's an area that is of keen interest to everybody.

The Chair: Ms Haslam, you wanted to clarify something?

Mrs Karen Haslam (Perth): On this particular graph, because I was following it very closely when you were talking about this, what is the correlation then between the GST—that's what you said in your original presentation regarding the time lines and the introduction of the GST on this particular graph, so now I'm wondering why the answer you're giving now is different than the presentation. Could you clarify that for me?

Mr Spiro: I don't believe it's a different answer than the presentation. I was saying that yes, the underground economy probably does increase, underground activity probably does account for some proportion of it, but as to the amount, again based on the estimates of how much the underground economy has grown in relation to the GST and so on, it's hard to believe that it could account for this much. But again, until we study it in much more detail, we really don't know. As Peter Wallace said, it's a judgement call.

In terms of the timing, yes, you're right, it does coincide, or to some extent. The 1991-92 fiscal year is the one immediately after the introduction of the GST, so it does coincide in terms of timing.

Mrs Haslam: Thank you for that clarification.

Mrs Caplan: Just on information, perhaps it would be helpful for the committee if you could give us a list of whatever public opinion polling you have done in this area, perhaps since 1990. It would be really helpful if we knew when you polled or if questions were included in other surveying you were doing, because you did mention surveys, and I would be interested in how often you're—

Mr Spiro: To the best of my knowledge, we haven't done any. Maybe Roy can correct me on that. I was referring to publicly available surveys as in the news media and so on.

Mr Wallace: Just one other comment on the relationship between tax and revenue: One of the complicating factors of course is that in many cases those taxes that we assume or presume are not the easiest to avoid, for example corporate income tax, are the ones that show the biggest variability over time and in fact show the deepest,

and that's clearly driven by economic factors, or likely driven by economic factors.

Mrs Caplan: Would you repeat that last sentence?
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Mr Wallace: Yes. There are a whole bunch of taxes that go into making up the provincial tax revenue. They all show different performances during a recession, and they're also subject to different rates of evasion. The corporate income tax is one, as Peter mentioned, that shows really substantial variations over time. It reflects in all respects the recession and the impact of loss carry-forwards etc. That is one that is highly volatile over time but is not likely to be driven, for example, by the underground economy.

I'm just pointing out again the issue that there all sorts of factors involved here, and also trying to allay any sense of defensiveness here. We're not trying to be defensive on the notion. What we're trying to do is make the point that it remains a fundamentally opaque issue, quite frankly.

Mrs Haslam: Along that line, on page 14, I wondered if you had any levels of evasion for large corporations. You had them for small corporations, for sole proprietors, partnerships, informal suppliers, but you had none, at least I didn't see any here, for large corporations. Are those numbers available?

Mr Spiro: The IRS audits effectively focus on individuals, and in this case it would be like an individual who owns a small corporation. I'm sure they do audit large corporations as well, but this particular study doesn't contain any data on that.

Mrs Haslam: And there are no other studies you know of that we could have access to or you could list with the researcher?

Mr Spiro: Not that I'm aware of. The general perception is that large corporations use different types of techniques, not what you would call direct evasion.

Mrs Haslam: I love it. I'm going to follow that when we come back in the afternoon. Will there be someone here this afternoon to talk on audits? Will you have somebody here who will help me in my questions about Canadian audits, percentages, that type of thing?

Mr Lawrie: Yes.

Mrs Haslam: That's fine.

Mrs Caplan: One last comment, if I could, because this will be something I will be pursuing, and it's why I'm interested in the sociological and psychological studies. It seems to me, from what I'm hearing from my constituents in Oriole and outside Oriole as well, across the province, is that it's becoming acceptable behaviour, the notion that everybody else is doing it.

Also what I'm hearing from people when they talk about avoiding paying both provincial sales tax and the GST, or any tax frankly, is that it's a way of acting out their frustration if they don't like a government policy or they don't like the leader of the government. I've actually heard some very negative statements about Bob Rae and that's the rationale for not paying taxes, or somebody else being upset at the social contract and this is a way of

both acting out their frustration and saying, "I'm angry."

To me, this kind of behavioural change—

Mr Spiro: I should mention that at least one of these studies also suggests, though, that people use this as a rationalization. They were inclined to cheat anyway and they use that as an excuse to make themselves seem less unethical.

Mrs Caplan: These are important parts of it, and I just wanted to say thank you for—

The Chair: Did I not also hear, though—I'm not sure; it might have been Mr Wallace—that the underground economy isn't driven just by the fact that there's taxation, that there are other factors? Did I not hear you say that in your—

Mr Wallace: Absolutely. That's right, but the question is a legitimate one. There's no question of that, and I think we acknowledge it. We acknowledge in the presentation both parts of it very explicitly. One, an underlying point here, if I can interpret what you're saying, is the issue of entrenchment, that new mechanisms are being established, and I used the words "parallel economy." I don't know if that resonates or not, but that sense is clearly there.

The magnitude of it is very hard to understand, but it's a real issue that once people develop a taste for cheating, they might keep on cheating. Even if it's not driving the revenue picture now, it has the potential to have a future impact. It's something we're obviously concerned about and I know the committee's concerned about.

The other thing is, of course, the rationalizations. You're interested in the psychological studies and Peter knows something about that. That's clearly a real issue. What drives what is an open question, but clearly people are mad at the GST. They're mad at various aspects of other government policy.

Mrs Caplan: They don't like the social contract very much.

Mr Wallace: They may use this for striking back. Whether it's a rationalization or the cause is almost a moot point.

Mrs Caplan: The last point on this is that what I'm finding is that people are talking about it more, and not talking about it in a negative way but talking about it in a positive way to each other; in other words, sharing advice on how they manage to, in their view, avoid taxes, but actually evade taxes. I think that's a change within our society, where in the past, if you didn't pay tax, you didn't tell anybody about it. Now, with the discussion that's going on, and maybe it's being reflected in voting patterns at election time, people are sending a very clear message that they are feeling overtaxed, that they're not happy with the value they're getting for government services, and that they are going to send that message. That's what I'm hearing from my constituents, and I'm just wondering if the ministry is aware of that as it has discussed policy.

Mr Spiro: Certainly it's widely known throughout the news media, this kind of information.

The Chair: I think it's probably appropriate at this

time that we adjourn. I want to thank you very much for your presentation and thank you also for—

Mr Cousens: Are you thanking Elinor for her presentation or the—

The Chair: No, I'm thanking the ministry officials for their presentation and thanking them also for coming back this afternoon to answer more of our questions.

Mr Cousens: What time do we come back?

The Chair: If you would be here at 3:30, we'd appreciate it very much. This committee stands adjourned until 3:30 this afternoon.

The committee recessed from 1156 to 1531.

The Chair: The standing committee on finance and economic affairs will come to order. It's apparent at this point that indeed we don't have a quorum, but, given the nature of our committee meeting today, I think it's not inappropriate to start with questions for the representatives from the Ministry of Finance. Ms Caplan had considerable time prior to the noon break to ask some questions, so we're going to go now to Mr Cousens.

Mr Cousens: I share the feeling of other members of the committee who have already had a chance to comment on the presentations by Messrs Lawrie, Spiro and Wallace. That was a great presentation this morning. There wasn't a lot of notice for it, but you brought to it a sense of understanding the problem already, having commitment to addressing it personally and within the business you're in, doing so responsibly, with a great deal of balance, with the best interests of what the province is all about.

I begin by saying I have no criticism at all of what you had to say or how you said it. I was also impressed by the spirit behind it. It's not often I'm that kind. I'm so used to being mean that it's very difficult to find those words, but they were there somewhere.

Mr Sutherland: Don't worry, Don. They hear every comment you make about the bureaucrats in the Legislature.

Mr Cousens: I'm aware of that too, Kim. It was a good presentation. The problem we as a committee have had from the beginning is how we get our arms around it. We understand the difficulty of doing that, but it helps us when you lead us in some of the right directions. To find the way of coming out of this is really the big challenge.

All the presentations raised questions for me, but on page 24, as we started getting into some of the things Roy Lawrie was talking about, I'm concerned about the resources you have to have within the ministry to chase non-filers and other groups. It takes a tremendous amount within the ministry.

Maybe the New Democrats won't like this form of questioning, but have you asked for more? Have there been any proposals that are public that would give me a sense of how many you've got, what money it takes to run those departments and whether it's one of the areas that is being squeezed and hurt by the social contract? Is it an area in which you're being given some understanding to expand and develop? To me, what you're really

saying is that it's a major industry—no, opportunity. It is an industry out there, but for you there's just so much to it to get into it.

Mr Lawrie: Perhaps I should point out first of all that Project Fair Share came from the Ministry of Revenue, as it then was, and there was no magic to the particular figures that were chosen. It was as many as we could then accommodate within our existing premises without looking for extra accommodation, which is lengthy and obviously very expensive. In the sense of can we take more resources, not without extra accommodation, we got all the resources we asked for.

Have we been affected? We've been affected in some areas of the ministry. For example, there were some surplus declarations as a result of the merger of the three ministries. There were also surplus declarations as a result of the wind-down of the SBDC and ESOP programs. I think we've been able to accommodate virtually all the people in other jobs. We're fortunate in that as tax administration is growing, it can provide homes for people who were laid off in other parts of the ministry.

Mr Cousens: How many people would be in this identification and compliance group, as you start looking at the size of that?

Mr Lawrie: The I&C group is small: eight person-years, which will be spread across six regional offices in EHT. However, I should say that obviously we'll be monitoring the results of the I&C group very closely, and if it looks as if there's a real problem with non-filers, we'll divert resources from elsewhere, which usually means audit resources, the reason being that most other work in the tax administration side of the ministry is regarded as mandatory: You have to answer taxpayer queries over the telephone and letters; you have to publish information, because the system won't work without it; you have to process returns and payments. Virtually the only discretionary resources you have are audit and to some degree collectors.

Mr Cousens: What would your numbers be? I have no sense of what the numbers are in audit versus I&C, as you call it.

Mr Lawrie: Roughly speaking—I may have the actual figures here. I don't mind talking about numbers of auditors. When we get into how big a percentage of the tax rolls are audited a year, our audit coverage rates, most tax administrations would prefer that that not become public knowledge.

Mr Cousens: And I can see why. That's why I'm being careful, because I think there is a danger in the questioning we have: Not only will the good guys be reading this, there'll be the ones who can benefit from the knowledge that is going to be shared and how we're going about it. Maybe there will be some point when our own committee, and I suggest this to you, Mr Chairman, might consider going in camera at some point if there is some benefit, just respecting some of the confidences we all might know and not want to put into this document.

The Chair: Indeed, Mr Cousens, and if from time to time there are questions asked that you feel, Mr Lawrie, would be better answered in camera, if you would let us

know that, then we will certainly oblige you and at some point in time when we do meet in camera we can revisit these questions.

Mr Lawrie: Okay. In tax administration, I have a total staff of 1,550 at the moment. The largest branches are retail sales tax and corporations tax branch, both just under 400 people. In retail sales tax branch, about one half of those are auditors, so I would say the audit strength in retail sales tax is just under 200; about the 180, 190 mark. This is, incidentally, after including extra resources which are not all hired yet as a result of Project Fair Share. In the corporations tax branch, because of the manual intervention in assessing returns at the moment, the proportion of auditors is lower. It would be about one third, which would make it about 120 or 130. The motor fuels and tobacco tax branch also has auditors and fuel tax and tobacco tax inspectors; 25 inspectors and, if my memory serves me right, I think somewhere in the region of 15 or so auditors. The auditors mainly audit interjurisdictional carriers in respect to fuel tax. It's one of our large tax rolls.

1540

Mr Cousens: How many auditors are there? I guess I'm getting lost in your answer. Can you break it down?

Mr Lawrie: I would say about 400 in total.

Mr Cousens: And how many are there in I&C compliance group?

Mr Lawrie: At the moment, eight.

Mr Cousens: It's a good thing you've gone to computers, or you'd be dead. Even then—have you asked for more than eight?

Mr Lawrie: At the moment, no. Obviously, we wouldn't have asked for these resources if we didn't think they were necessary, but we'd like to test it to see how much non-compliance in terms of non-filing there is out there in the province and, depending upon the results, we will go back to the treasury board and try and persuade it to give us more resources. There's a lot of pressure for resources at the moment.

Mr Cousens: From opposition's point of view, we're usually fighting any government that adds people to the bureaucracy, and I know some of our constituents wouldn't be pleased that we're even thinking of wanting to support additional resources, but may I suggest to you that if this were a business opportunity for Monte Kwinter to sell some of his products, to get out there, he would have a lot more than the number you're talking about going after it, because I don't think there's any doubt that you're looking at a little gold mine that could be almost as good as some of the ones up in northern Ontario that have been opened up. There's got to be a pot at the end of that rainbow you've started down.

I know my time is running short. I support your efforts in that direction. I'll get my turn when it comes around again.

Mr Lawrie: One further thing I'd just like to add. We have 160 collectors. Obviously, next to audit, they're very important in bringing in revenues.

Mrs Haslam: I had some questions around corporations; there are a couple of things I'd like to know

around corporations. In the first place, on page 3 of the original presentation, it said, "Consumers and corporations may develop a 'taste' for cheating," and then on page 5 you say that tax evasion is seen as a victimless crime. I want to go back to the corporations, any type of cheating they do being done more on a technological level, cheating on supplies, cheating on invoices, cheating on those kinds of things, being seen as a victimless crime. As I understand it, this has probably spread to other businesses and other workers. How prevalent was corporate cheating compared to today?

Mr Wallace: I'll take a stab at the question. I guess the point is kind of an economic point, first of all, just the background we are concerned about, the emergence of parallel markets. One of the things we're concerned about is that once these behaviours are entrenched they may spread to other areas as well. In terms of corporations themselves, most large corporations of course will have relatively little incentive to cheat directly on taxes. There are ways they can manage their tax burden through tax planning that are condoned and set out within the tax code, and that's reasonable and we expect them to do that. The other issue, though, is that there may be instances in some cases in which corporations may engage in some sort of illegal activity. That's, I think, a fundamentally different issue. That's why that then relates back to tax evasion as a victimless crime.

Mrs Haslam: That brings you back to another point about how they found other ways to find loopholes. They have the finances to hire very high-class lawyers to find a lot more tax loopholes and ways of cutting back on the tax they pay, whereas an ordinary fellow out there may not have that capability. What I'm just trying to say is there's been some white-collar crime out there; there's some white-collar evasion, some technological ability to evade taxes and to pay less tax. But now the worry is that it's becoming more prevalent in ordinary Canadians, in ordinary citizens. I wanted to know whether that is true, it's because we haven't been able to find a lot of the corporate ways of tax evasion before this, or is it just because it is easier to find at a lower level and a lower economic bracket?

Mr Lawrie: If I may, I'll take a crack at answering that. It depends on the size of the corporation. For example, very few of our tax evasion cases—in fact, none that I've seen in the last six years—have involved large corporations. That's out- and-out evasion cases. I think the reason is that the larger the business operation, the better the internal control system has to be from an accounting standpoint. I think in the corporate sector where you're likely to see evasion is in some of our RST cases, smaller corporations, where they are owner-managed and where there is a blending, at least in the owner-manager's mind, between the corporation and himself in terms of finances.

However, on the other hand, if you look at our audit recoveries for corporations tax, which exceed in field audits \$150 million a year, clearly, compliance is a problem in corporations, particularly in larger corporations. But a lot of the ways taxes are minimized are matters of opinion. For example, if you have long-term contracts

that extend over a number of fiscal periods of the corporation and you are a profitable corporation, there are various ways in which you can take the profit on that overall contract into each taxation year. Obviously, it's in the corporation's best interests to postpone the tax as long as possible and therefore take the profit only when the contract is completed. On the other hand, if the act requires the profit to be brought in in earlier years, then a reassessment will take place. So basically, you're talking about timing of tax paid and therefore an interest cost of not being as early as you should.

Similarly, there are problems with various reserves, such as reserves for doubtful accounts. They're matters of opinion in an accounting and a legal sense. They're frequently larger than they ought to be from the tax auditor's point of view, but perhaps that's prudent from the corporation's point of view and it just has the incidental effect of reducing the taxes payable. Again, if there's insufficient evidence to back up reserves of that nature, they're reassessed and the tax comes in.

Mrs Haslam: I think what I'm trying to tie together is similar to what my colleague Ms Caplan was talking about, the idea that corporations are able to do it, they have more money to spend on legal ways of doing it, whereas the ordinary person is finally saying, "That's not fair and therefore this is my way of getting some money in my pocket." That's why I was asking about the difference between corporations and—it seems to have prevailed now and to come right down into a lower economic bracket.

I have a couple more questions. On page 11 you talk about intensive audits. You have the US Internal Revenue Service that does it every 10 years; "not available for Canada." Are you telling me the information is not available for Canada or Canada does not do intensive tax audits?

Mr Lawrie: I can answer that question. Actually, Revenue Canada did conduct a similar study. It was called CMS, compliance management study, in the early 1970s. In fact, I can remember when I was an auditor with Revenue Canada doing a couple of those files. They never did publish the results, and I think one of the reasons was that there were problems in the way files were allocated. They were randomly selected files and the program went on over about a two-year period and because of the additional forms that were necessary to accumulate the results from the audits, the auditors knew when they were assigned the CMS file as opposed to a file which had been selected by the supervisors because of problems evident in the return. I think that biased the results.

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Mrs Haslam: So if I were to ask how often have we done tax audits, what is the percentage overall—because you gave us some percentages when you were talking about the Internal Revenue Service doing 10 years. You gave us percentages and facts and figures, and there are ongoing audits in the US service besides its major one, one every 10 years, but I'm just asking, if we wanted some of that information about Canada, could we not obtain it?

Mr Lawrie: I very much doubt if Revenue Canada would want its audit coverage figures to be public knowledge, the reason being that anyone inclined to take a risk on evasion could then more or less work out the downside risk of being detected.

However, I would suggest that you look at the Auditor General's report on Revenue Canada for 1990. I think in a couple of my slides I quoted that study. Although audit coverage figures are not specifically governed, I think you'll see some critical comments from the Auditor General about office-audit and field-audit coverage of taxpayers where there is very little third-party information available to Revenue Canada. I'm talking about the self-employed and particularly people who have large capital gains either from real estate or from investments. This is on an individual site where there is no information reporting to contrast the situation from a third party; plus a situation with employment income, for example, where T4s are made up by the employer and sent in separately to Revenue Canada. So it's a third party or investment income such as dividends and interest where the corporation or the financial institution has to send in T5s to Revenue Canada. Again, it's an independent verification source.

The areas that are high in non-compliance are where there is no third-party information. It is like, for example, subcontractors who are self-employed, stock exchange transactions or capital gains where there's absolutely no information reporting at all. Interestingly, before Michael Wilson became federal Finance minister, it used to be true of government bills as well. He introduced information reporting because he was passionately aware of the abuse that was going on because there was none, and as a result, tax on government bills went up substantially when information reporting went in.

Mrs Haslam: Do I still have time for another?

The Chair: As a matter of fact, we should move on to Mr Kwinter and we can come back.

Mr Monte Kwinter (Wilson Heights): I just want to make a comment and then I'd like to ask a couple of questions. In the discussion that just took place, at the beginning of it, there seemed to be some confusion, certainly in my mind, in talking about tax avoidance and tax evasion. I don't think anybody objects—I shouldn't say that; philosophically there may be an objection—to tax avoidance. I think there's an obligation on the part of individuals and organizations to take advantage of the tax laws as we have them and to avoid paying taxes if they can. Tax evasion is a totally different matter and I just wanted to make sure that this was understood, that we weren't talking about tax avoidance; we're talking about tax evasion.

The other thing that I'd like to raise is that this morning Mr Spiro was mentioning to us his monetary methodologies, and he was taking exception to the fact that some of the models that were being used show that the size of the underground economy was somewhere in the 15% range, where he felt that somewhere between the 8% to 15% range was more in line.

In an article that appeared in the Toronto Sun today, a university professor of economics in Montreal claims that

the total is about 16% of Canada's official \$700-billion economy. Then, at the very end, they estimate that maybe it's somewhere between 8% and 13%.

This other article in the *Toronto Star* on October 18 just appeared on our desks. It referred to Professor Smith at the University of Alberta. He has been studying the underground economy for more than a decade, and he estimated that in 1990 the size of the underground economy was between 15% and 20%.

We have this wide range of estimates of the size of the problem. I don't think it's going to make much difference. As you said earlier this morning, whatever the number is, it's a huge number, but on the other hand, it would be important to know if the problem is twice what we think it is or half what some people think it is. I'd be interested in having some comments on that.

One last thing I'd like to have comments on is the article in *Maclean's* magazine where it is reported you said—and we mentioned it this morning—"I hesitate to talk about this subject because the data show that the more people become aware that other people cheat, the more they cheat." You talk about some of the things you're doing to address the problem. One of the things you suggested you'll be doing is putting out this non-compliance bulletin or whatever you call it, and you're going to talk about some of the more unusual ways people have been trying to evade or are evading taxes.

I would suggest that, notwithstanding that you caught them, the more you talk about them, the more ideas you give to people because, given the constraints on your personnel, it's impossible to audit everybody. The more you talk about it, the more people will get ideas as to just how they can circumvent your particular laws. I'd like to have some comments on that.

Mr Spiro: You should go first.

Mr Lawrie: Dealing with your last comment first, in our bulletins and press releases we're obviously not going to provide a road map for tax evaders. The press release doesn't guarantee publicity. There has to be something unusual about the case for it to hit the newspapers. We look for unusual things. For example, a good quote from the presiding judge in passing sentence would take it into the realm of newsworthy. It can be something as simple as that.

Particular kinds of evasion would be a concern, particularly if we feel we were lucky in discovering them and have not taken precautions to look for any others or prevent them from recurring. On the other hand, the bad gas scam, for example, which was investigated by a joint force of the OPP and ourselves and a couple of other ministries, where unstable solvents were mixed and sold as gasoline—and there's a safety issue as well—got a great deal of publicity.

That's the sort of thing I'm talking about. It's unlikely, when something like that gets a lot of publicity, that it's going to recur.

Mr Spiro: As to the measurement, I haven't seen today's *Sun*, but I presume it's Professor Vaillancourt who's being quoted there.

Mr Kwinter: Yes.

Mr Spiro: That's right. He was also quoted in yesterday's *Star*. I don't know if it appears in the *Sun* quotation, but in the *Star* quotation he gives a range for the dollar value of the underground economy in so many billions, from \$50 billion to \$100 billion, something like that. If you work out those numbers, his range as a percentage of GDP is very similar to the 8% to 15% range that I put here. Again, Professor Smith is the same Smith of Mirus and Smith I referred to on page 18. In their latest study, they carried the estimation up to 1990 and they have 15%. Then I suppose it makes sense for him to say 15% to 20%, because there is a perception that the underground economy has grown further since 1990.

1600

But again I reiterate what I said before. Mirus and Smith are assuming that the cash in the underground economy recirculates as rapidly as it does in the legal economy. I suppose one can't rule that out, since we have no data on it, but it does strike me as implausible because of the fact that the people there cannot take their savings from their underground income and invest it in other financial assets, as a person earning legal income could. I think it's virtually certain that the velocity of circulation of money in the underground economy is lower.

So while generally I find Professor Smith's estimation methodology plausible in terms of his estimation of how various factors lead to the growth in cash, and that's identified with the underground economy, I think nevertheless that by not taking into account this difference between the use of cash in the underground economy and the aboveground economy, he does tend to exaggerate the size. But again I'd have to admit there's absolutely no way of knowing what that differential rate of recirculation of cash is in the underground economy, so that's why I attach such a wide range to it.

Mr Kwinter: Do I have time for another one?

The Chair: Your colleague Mr Phillips wanted to ask a question.

Mr Phillips: Go ahead.

Mr Kwinter: There's another thing I'd like to ask, if I could. When you do your audits, is the way you evaluate your auditors on the amount of money they generate? I notice in your reporting, on page 23, you talk about your audit recoveries per audit. I'm just concerned that when the auditors go out, they know what the average return should be on their audit and that determines who gets audited. In other words, there's no sense auditing somebody if you haven't got a hope of meeting your average, because then you're going to be evaluated as an auditor or a collector on the basis, "You're not generating enough money for our coffers and you're wasting your time when you could be out getting a lot more money if you chose some other people to audit."

Mr Lawrie: The answer to that is of course no; auditors are not judged on the revenue they bring in. But there's a slight other side to that, which is that for corporations tax in particular, we concentrate on larger corporations for our audits in file selection. The reason is that Revenue Canada, which also does corporations audits for income tax, has a very much wider coverage than we

do. They've got a lot more auditors in Ontario. We get the benefit of their audit adjustments. Although they're quite heavy on larger corporations as well, they spread their coverage quite well among the smaller corporations. We feel that our resources in corporations tax therefore are better spent where they can get the largest recovery, which has proven to be basically corporations over about \$50 million in annual sales and we concentrate on corporations like that. We do occasionally do corporations that are smaller in size. But individual auditors are not rated on the revenue they bring in.

These figures were simply put together to show a trend because, as my colleagues have pointed out, it's very difficult to size the underground economy. A lot of the information one gets is anecdotal because of its very nature. The figures I gave were simply to show why I personally feel in tax administration that, yes, non-compliance with tax statutes is growing and has been growing for two or three years now, quite steadily. It was in that context that the figures were given.

Mr Cousens: Mr Kwinter raised the issue of tax avoidance versus tax evasion. Would you treat anyone any differently? How would you treat someone who has a deficiency under either case? Are they treated any differently under the law or by yourselves? I'd just like to stay on that one a little bit, because I think it's an interesting question for me.

Mr Lawrie: Tax evasion requires *mens rea*, or criminal intent. In tax avoidance, there is no criminal intent. It's often said there's a thin line between tax avoidance and tax evasion. Personally, I disagree with that. If you cannot prove that there was criminal intent from the evidence you get, it was not evasion; it was obviously tax avoidance at best.

The remedies are different. Tax evasion obviously can result in prosecution in court and fines, and in certain circumstances jail sentences being imposed, as well as substantial civil penalties in many instances. Tax avoidance, if it's actionable—and sometimes it is not; if it's not, I would term it tax planning rather than tax avoidance. At least, in my experience, tax avoidance is usually used to mean the type of thing that is going a little further than the Legislature intended when it passed the relevant statute. In other words, it doesn't pass the smell test, but it is not criminal activity. I don't know if that helps.

Mr Cousens: That's very helpful. I just wanted to chase on it. I don't know if you have anything further on that, but I think you've answered it for me. I want to go back. One of the things that was said in the first presentation had to do with the fact that even if Ontario had a lower tax on tobacco—on page 8 is the diagram where we were talking about it—there'd still possibly be profit for the underground economy to benefit from it. That's a fact I'm having trouble with.

If you look at different things within the underground economy, I guess there's a certain percentage that varies. As long as it's above a certain amount, then it becomes worthwhile for the underground to prosper in it. Could you expand on that whole thing, because it's a theorem that I don't think the public would accept. I'd say we're

at the point now where it's been exacerbated by the high taxes and the tax wall and other things, but most people would believe it's an integral part of the underground economy, that both the federal and the provincial taxes are all so high.

Mr Wallace: I'm not sure I disagree with your point. I don't think there's any question that the level of tobacco taxation, the increases in the late 1980s and the early 1990s, particularly at the federal level, but joint federal and provincial for sure, have created a situation in which there's a substantial price differential between the price of cigarettes in Canada and the price of cigarettes exported to the United States and brought back into Canada, so there is in some sense a substantial incentive there. The main point on the slide is that the incentive is not solely a function of provincial taxes. There's no question that provincial taxes contribute to that incentive.

The incentive now is sufficiently large, quite frankly, that it's our guess, it's our understanding that even if provincial taxes were eliminated from the picture, there would still be some financial incentive to carry out smuggling, certainly to Quebec where taxes may remain the same, but also to Ontario even if the Ontario taxes were reduced to nothing. I think that gives you some sense of the magnitude of the price differential. It depends of course on smugglers' costs and things like that, which are going to be highly variable due to a whole bunch of factors: level of enforcement, all sorts of other things that will have an impact on that. But the basic point I think is quite obvious there, that it's not something Ontario policy alone can adequately compensate for.

Mr Cousens: The final thing is the matter of the cooperation among other levels to make sure that you're into it, because the tobacco is certainly cross-border. You're in a position then where you must have high cooperation between our Ministry of Finance and police forces at all levels.

Mr Wallace: Yes, and the other thing is simply that the situation is different now that there seems to be a network established. Whereas previously it may have required a substantial ramping up of taxes and a number of years for a network to be established, once that network is in place, they have their own costs in place etc and are used to it. That may alter the situation substantially and it may alter their own internal cost structures.

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Mr Drummond White (Durham Centre): I would like to pursue a couple of questions, Mr Spiro. In regard to your excellent examination of the research, the issues behind the subterranean economy, there were a number of things that I found to be quite striking. If I could turn your attention to the two charts on pages 16 and 17, many of which have the same statistical background, it seems clear from the chart on page 16 that if we exclude the Mediterranean countries—or even if we include them; it doesn't really matter. If we look at this chart there seems to be very little consistent relationship between the top marginal personal tax rate and the presence, or the degree to which there is a presence, of a subterranean economy.

However, when I turn this page to the next one, with the exception of the Mediterranean countries, I've drawn a little line here. I think that's about as close to a perfect relationship as you can get: a direct correlation between one factor and another, pretty close, especially given the uncertainty of the figures and the variation in the report. I would conclude from this that the personal income tax rate is not necessarily directly related, but the overall tax rate is.

Mr Spiro: That's right, although of course the structure of personal income tax rates in general forms part of the overall taxes as a percentage of GDP. But yes, your general comments are quite right.

Mr White: If one makes that distinction between the personal income tax, the top marginal rate, and the overall taxes, the difference between those two tax rates essentially is founded within the consumer-based taxes such as the GST, the PST, the property taxes etc, and particularly what we refer to often as a regressive tax, one which is not based on one's ability to pay.

I find that striking, particularly when I compared it with the other chart, which is on page 6, "Nominal GDP and Tax Revenue Growth." The tax revenue dropped dramatically in 1991-92 and has stayed down since. Now, there are two things that happened in that period. We had a recession, and on January 1, 1991, we had this thing called the GST which went from a tax base on corporations which really couldn't avoid paying the tax, as you've very clearly mentioned, to that tax being spread out across the general population in a regressive form, hitting people across the board, and as you've indicated, promoting a climate wherein tax avoidance and tax evasion became as popular a sport as baseball, perhaps even more so.

It seemed to me from those factors that there's a direct relationship between the incidence of regressive taxes that affect working people more significantly than upper-income people, and small businesses and small business people more significantly than large corporations.

Mr Spiro: That's right. As we discussed this morning, we haven't been able to carry out a complete study of the factors underlying chart 6. As best as I've been able to establish, there has been growth in the underground economy coinciding with this period. It would be hard to attribute all of this or even the majority of this decline in revenue to the underground economy. There's a substantial portion, but when we see a 10% drop in revenue, it doesn't seem possible that even the majority of it could've been due to the underground economy. It's something we do intend to study. In a general sense, I guess the evidence does support what you're saying.

It should also be remembered that this is just one aspect of what underlies tax policy and one of the considerations behind tax policy. It may be true that this type of tax increase does add to the underground economy, but there are pros and cons of all different taxes. Some taxes have a greater impact on the incentive to work, on the incentive to investment and so on, so there are a variety of factors. In fact, one of the studies I alluded to this morning by Clotfelter mentions the effects of taxes on evasion but suggests that this is one of a

number of factors you have to take into account when you evaluate the validity of different kinds of taxes.

Mr White: I appreciate that, but I would wonder if a consumer-based tax, such as a GST or a PST or taxes such as that, would be more likely to be evaded or avoided than an income tax or a corporate tax.

Mr Spiro: It's hard to generalize. It depends also on the types of taxation. In its latest budget, the Ontario government imposed a provincial sales tax on insurance services, and there we have a reasonable expectation that there will not be much evasion because of the nature of those companies: They're highly regulated, highly visible companies. Insurance by its very nature is not something that you're going—well, maybe some people do buy it in the underground economy when they're forced to, but it's not ordinarily the kind of thing you get there.

Mr Wallace: And it's called protection.

Mr Spiro: That's right. There are some types of general consumer-type taxes where you can feel reasonably confident that they won't be evaded, and then there are others where there's a high degree of likelihood that they will be, so when you're setting tax policy you do have to look on a case-by-case basis.

Mr Wallace: Two very quick points on that: One is just an economic point, which is that Peter's graph does show taxes as share of GDP and the apparent correlation between that. We should be aware that over the last couple of years, taxes to GDP, the ratio is falling, with taxes as a share of GDP actually declining at the same time that we're supposing the underground economy increases. That relationship is, as we talked about earlier, likely to be substantially influenced by major economic factors as well. I'll leave it at that.

Mrs Haslam: I apologize if I was asking you to give me some profile of people when you are more interested in the figures on paper. I'm just trying to get my mind around the facts and figures about it so that when we have other people come before the committee and we talk about the mindset and talk about how they perceive what they're doing and some of the underlying reasons regarding corporations versus little guy, small versus large and that kind of thing—that's what I was trying to get at, getting a more factual picture of what a corporation does so that when we look at the mindset, we have the facts and figures. I'm stymied because I don't have those facts and figures to look at.

I know it's a complex issue. I know you've said it's not a result of the tax system. We're talking about the underground economy not being a result of the taxes, either federally or provincially, that are being charged, but I wanted to do one more question.

On page 24, you talked about non-filers and you said you were talking about people who have never filed income tax. Is that true? Are there people who have never filed income tax?

Mr Lawrie: Yes.

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Mrs Haslam: Let's say next year I decided not to file my income tax. Can I get away with that?

Mr Lawrie: I think it's true of most tax administra-

tions that once you've filed a return once, your chances of being detected—

Interjection.

Mrs Haslam: Mr Phillips, you've already filed, have you?

Mr Lawrie: —when not filing subsequently are much higher than if you had never filed that first return, because the presumption is that no one knows about you if you never filed a first return.

Yes, there are people who have never filed income tax returns. The most common example is illegal immigrants, where there is no work permit. If they're discovered they fear being deported and, obviously, they don't want to bring the attention of any part of government to their existence.

Mrs Haslam: That's just a clarification for me, and that's all I have for now.

Mr Norm Jamison (Norfolk): I find it interesting to look on page 14 at the percentage of medium and small businesses out there that, under certain surveys, simply don't—52% of income was unreported by sole proprietors and 40% of income was unreported by small corporations.

I had an interesting experience just a couple of weeks ago talking to a contractor, a person who subcontracted out his work. I asked him about the underground economy, and he smiled, of course, and didn't really know who I was. I said, "What would happen?" He said, "Well, with competition being so tough in the market, of course sometimes you present two prices: You'd present one that would be paid in full by cheque or you would present one that would be paid in full in cash, and those prices would be significantly different." I said, "How would you hide doing the job?" Of course he kept referring to "people," but he said people would do that by issuing a receipt valued at far less than the job was actually done for, and the contractor would consistently put enough money in his pocket, at that point, to pay the groceries and maybe the hydro bill and some other things, his ongoing bills. I said, "Is this an isolated, infrequent instance?" He said, "It used to be, but it's not any more."

I think people initially looking at these figures would be shocked at seeing the percentages. What I'm trying to say is that the underground economy is not just in cigarettes and the alcohol. The underground economy is out there in everyday business practice at this point, and it's becoming more and more. I think all of us, as representatives, are very concerned about this, that it's becoming a common practice, one that almost receives some back-handed credibility from within the community itself. Listening to Drummond White's concerns over the upward climb of the underground economy, he has indicated that certain things happened at certain times that seemed to have at least helped spur that along.

As auditors, how is it we deal with that particular type of situation, when you're having contractors, small business people, dealing in cash rather than otherwise and reporting and writing bills out for less than the job could actually be done?

Mr Lawrie: A number of things could be done by the

federal government if it really wanted to attack the underground economy; for example, increasing the amount of third-party information return reporting. There is, I believe, information reporting on stock exchange transactions in the US. Presumably an act could be required in Canada.

It would also be possible to increase the use of deduction at source. For example, there's no standard rate of tax deducted from dividends from interest income from subcontractor payments. Such a system could be devised. It does work in other countries. It would serve to give a cross-check on income reported voluntarily from sectors that otherwise are known as being centres of non-compliance. But they have to be done at the federal level, things like that, and not at the provincial level, because I think most of the examples you've given are personal income tax.

My personal view is that the biggest loss of tax revenue in the underground economy is personal income tax, the reason being that the rates are very high across Canada compared to other forms of taxation; therefore, not declaring income that's supposed to be subject to personal income tax gives you a bigger return. If you combine that with, in certain instances, a very low risk of detection because of low audit coverage, obviously it's going to result in an increase in non-reporting of income in areas like that. Basically, what I'm talking about is the self-employed and personal income tax.

Mr Phillips: All this is very, very interesting. The chart on page 6 is fascinating, and I wonder if the staff can be helpful to us. There used to be a bunch of formulae you used in Finance or Treasury or whatever to project revenue. It used to be 9% of nominal GDP growth, as I recall. It seems to me that in the last couple of years those formulae have kind of gone out the window and that the money doesn't come in in the relationship it used to. The reason I'm raising the question is that it may be helpful to us in defining the size of the problem and the growth of it if there's any way we can get a three- or four-year projection of revenues that you would have expected under normal conditions and what revenue has actually come in. Is that possible for the staff to provide us with that?

Mr Wallace: It's an excellent question and one we're considering. What we'd like to do is in some sense take that as notice, not to evade the question, in the language of the day, but to come back to it. It's one we're really very, very interested in, and we'll give every consideration to that and let you know.

Mr Phillips: I am too. My own view is that the weak economy has hurt it, and I happen to think low inflation has had some impact and the underground economy, those three things.

Mr Wallace: But on the relative ratio of those things and how they apply to the different taxes and things like that, in order to give you any kind of a credible answer at all, those things need to be considered, and we'll give it a shot.

Mr Phillips: If you can do it, it will be very helpful to us, I think.

I thought Mr White had a good comment in that while we may not be able to change it, I do suspect that different types of taxes have different impacts on the underground economy and that we should at least be aware of that to the extent we can on our report. You've been helpful today on that. Just to alert the committee, I think we should be thinking about that. As I say, we may not be able to change the taxes. Someone made the point earlier about the way you introduced the tax on insurance. It sounds to me like at least you had a secondary, if not primary, consideration of the underground economy; at least that was an added benefit of that, the way you did that.

Mr Wallace: Another point I'd make along the same lines is that both federal and provincial governments have refrained from raising tobacco and alcohol commodity taxes over the past few years. I think there is a broad recognition, in some sense, of the issues and the need to avoid exacerbating some issues as well.

1630

Mr Phillips: I have two more questions, if I might, in terms of our report. A comment I often get from the business community and businesses is that their view is that there is an overlap of audit responsibilities and that they feel like they have four or five different branches of government coming to it. Should this committee be considering ways of better coordination among levels of government, and maybe within government, so we can use our scarce resources more effectively? Is that a worthwhile area for us to pursue?

Mr Wallace: Let me take a stab at the question generally, which is, absolutely. I think that's an area we've really highlighted in the presentation. It's an area of considerable interest and concern to the ministry. I'll pass it over to Roy.

Mr Lawrie: There's also the government's Clearing the Path for Business Success initiative, which is more or less concerned with the same thing: looking at ways of reducing the paper burden for small business and looking at a combination of various reports that are necessary for small business to file; whether there is any real need for the filing requirements to be so diverse and whether they could be combined in some way, along those general lines. There is a lot of work being done. In fact our re-engineering project for our systems is regarded as a possible vehicle, platform, for our Clearing the Path initiative for small business.

Mr Phillips: That may be an area in which the committee can be helpful in encouraging that along.

My last question is on barter. I recall a presentation this morning—maybe I can't remember it clearly—indicating that in your opinion barter may not be a significant issue. Just to help me at least to understand, where barter kind of moves from legitimate barter to barter that is subject to taxes that may not be paid on it—what I'm getting at here is that anecdotally, as you say, I have a feeling that more and more people are looking at barter and that they perhaps quite legitimately say: "I'm not participating in the underground economy. I'm just finding a better way to buy cheaper." I'm in this business and I go to somebody and they say, "You take

your margin out, I'll take my margin out," whatever it is. "I'll sell you a computer and you renovate my office." We both take our margins right down to the bare bone.

My question really is this: This morning, I thought the presentation was that barter, in your opinion, wasn't a huge problem. Secondly, where is the legal line you draw on barter in terms of what's permissible and what isn't?

Mr Spiro: I was the one who made the comment on that. There are a number of barter organizations, organizations that are trying to promote barter. Legally, as I understand it, the fact that you are bartering has no effect on the tax that's owed. There's a dollar value of the transaction, and if that represents income for you, for example, if you're a plumber and you do a certain value of plumbing and get something else in exchange for it, there's a dollar value that can be imputed to that and you have to include that in your income tax. In fact, the organizations that are promoting barter are quite clearly saying that they're not trying to evade tax, that they encourage their members to pay the legal amount of tax.

Apart from that, we don't really have a lot of data on the amount of barter going on. My point was mainly a logical one, that if someone is interested in being in the underground economy for the purpose of evading tax, there's not much additional advantage to them to engage in bartering. Bartering is always difficult because, just by its nature, you have to find exactly another person who wants exactly what you have and you want exactly what he has. That takes a lot of time and trouble to arrange that transaction.

If you want to evade taxes, to be in the underground economy, it's much easier to sell your services for cash and buy the other person's services for cash. Then you've evaded the taxes and made your life much simpler by buying wherever you choose, or at least having a much larger range of choice in which to trade rather than trading with one specific person who has exactly what you want and who wants exactly what you have.

The Chair: If the committee would allow me, could I make a comment about bartering? I happen to be from rural Ontario and lived in a place for a long time where I witnessed bartering. I think it's something that takes place in close families quite frequently, not because there's a want to avoid tax but because there's a need, probably because of very low rates of income, to meet some of the needs of the family, if I can put it that way. Therefore, a family member will call up another family member and say: "Do you want to get some work done on your house? You're a farmer; I could sure use a freezer full of beef," or whatever. These things happen with, I would suspect, great frequency.

I don't think there's a deliberate plan to avoid paying of taxes; however, there is certainly the understanding that both people are going to benefit in some way, because their limited resources do go further for them in that circumstance. Again, I want to emphasize that I don't think it's done deliberately to avoid taxation; it's done deliberately because there are limited resources within the families themselves. So they work cooperatively in order to make some accomplishments that they might otherwise not be able to afford.

Mr Wallace: I wanted to make a very similar point but more in economic terms. We've talked a lot about the relationship, and I think the nature of the questioning has focused a lot on the nature of the relationship between tax and taxation levels and the underground economy. I think it's always worth remembering that the underground economy has an awful lot of activities that don't have anything to do with tax.

The other thing I'd just like to emphasize is that I think at least part of the underground economy, in something like barter or in something like Mr Jamison's question, in the home-building industry for example—I know you'll be having them as witnesses—is that all of a sudden you have an increase in the level of unemployed resources, both human resources and capital resources, out there in the community, especially in some sectors, and I think people have a reasonable sense of what those are. I think as that becomes available, you have all sorts of people who would have preferred otherwise to work at ordinary jobs, to be drawing income, to be paying income tax at source, etc, looking, both for economy reasons and to try to get any income they can, for various ways, and they may well find that through some type of cash economy or through barter.

The primary thing again that is driving it may not be a desire to evade tax per se, but simply that this is the only mechanism that happens to be available to them in terms of their non-standard work situation. This would mimic in many cases what has been the practice in rural areas for a very, very long time or in any type of extended community situation as well. So I think we have to be careful about imputing all of this to the tax environment, although it's clearly an important factor, and remember that there are going to be some underlying economic and cultural factors as well.

Mr Cousens: I had a letter from Edgar Korea in my riding, after I'd written a letter about the fraud going on within social assistance and health. He came back with a number of points to suggest how we deal with it.

In my view, when we're dealing with the underground economy, part of that has to be seen as what is done that is fraudulent and wrong in dealing with government ministries. I would assume when we're looking at this as a larger subject, and that is my assumption, that we're looking at it as not just something that's out there in the business world but that there are many sections within government where it should well be considered. Assuming that is the case, to what degree have your ministries considered or dealt with other areas within the government where there are known needs? An example will be those people who are getting social assistance, two or three different cheques, getting them together. Is that something you have had a chance to assess or is it part of your considerations?

Mr Lawrie: The only thing that I'm aware of at the moment is that we are looking at possible participation in the government's recently announced Ontario child income program to replace certain benefits under the current welfare system.

The province of Quebec has done a great deal of work in trying to integrate its social benefits system with

personal income tax. When we don't administer personal income tax ourselves, there are a lot of obstacles to doing that in Ontario, but perhaps with the new Ontario child income program we'll be taking the first steps towards some form of integration.

1640

Mr Cousens: I'd strongly support it, and it's the kind of thing that this gentleman—

Mr Sutherland: You support our own income tax system in Ontario?

Mr Cousens: No, the point that was being raised by the ministry shows ways in which we can then identify those people who should be captured within the computer system and then apprehended by our own police force. But it's kind of like no benefits to an address that shows "in care of." There are so many things that are going on within other levels of the government, but obviously we're not too prepared to dig into that kind of exercise within this. Maybe it's something our own committee at some point could look at.

I had one final question. That has to do with the publicity, on page 25, when you started looking at the efforts by the ministries to publicize convictions and the enforcement bulletin. In my view, it's not an area in which you've exhibited much success. If so, maybe you could tell me why you think it's so, but I don't think you've publicized convictions worth a hoot. I guess your new forms that you're trying to get into will promote a little bit more understanding by the public at large that you're alive and well. Maybe you can expand a little bit more to make yourself look better.

Mr Lawrie: Prior to March this year, there was no active publicity sought on any conviction for tax evasion in Ontario.

Mr Cousens: None?

Mr Lawrie: None whatsoever. In fact, if by chance a reporter was in court and wanted to ask questions, he was directed to the prosecuting counsel. The ministry's position for a number of years, the long-standing position, was that no publicity be sought for evasion cases.

There has been quite a reaction since we started press releases in selected cases, which was only in March of this year. My impression, from special investigations branch and through the minister's office and through reporter calls, some of which I've taken myself, is that the reaction has been almost entirely positive—the opposite, I guess, of what you suggest—even from some of the more cynical members of the press, which is rather surprising. Perhaps the time is right for the message that cheaters cheat us all; we all have to pay if people evade taxes. Perhaps there's a dawning recognition that social programs have to be paid for somehow, and obviously taxes are the way that most of them are paid for.

Mr Cousens: Have you ever used the Gazette for the listing of certain cases that have been passed through the court? Is that a way you could use?

Mr Lawrie: You mean publish the names and addresses?

Mr Cousens: Sure.

Mr Lawrie: I think the theory is that the newspaper people, and television and radio too, in some instances, know best how to get the message across and are more effective at doing it than simply publishing lists of names and addresses.

The Chair: I've noticed from time to time over maybe 10 or 15 years that there is a report in our local paper about someone who has gone to court for evading taxes. I wouldn't say it was a headline, but it's certainly noted in the tabloid. But that's not what you're talking about. You're talking about automatically bringing it to the attention of the media that someone has evaded?

Mr Lawrie: Yes. As I said, the new policy consists of factual statements of tax evasion cases, including names, and addresses in some instances, and the sentence given and details of the offence. They're sent to newspapers and put on the wire services. Our target always is the same day as the conviction, because a day later it's usually old news; no one wants to print it. It's not simply a question of the ministry publishing names and addresses; it's trying to provide enough information for an interesting article for a newspaper in particular to pick up.

Revenue Canada, for a while, used to do the same thing but for a number of years now has only provided information if newspapers ask directly or if television or radio reporters ask directly. Of course the big problem there is it's actually quite seldom, unless it's a very big case, that there's any kind of reporter in court at the time of conviction. So how do they know about the case to ask about it? The answer is, usually they don't.

The Chair: The reports that I've seen, and these aren't recent, these may be five or 10 years ago, in my local paper were certainly—the results of those court proceedings with regard to those people who had tried to evade paying their taxes were such that I certainly would think that it would be a deterrent to anyone to try to not pay or try to undertake not paying their taxes.

Mr Sutherland: I guess I wanted to deal with a bit of a theoretical situation—well, maybe not theoretical. But dealing with the GST: When the GST was brought in, the view was that you need to make it visible: People need to see the taxes and where they are and you're replacing, as we heard, the much narrower but invisible manufacturers' tax. I sometimes have wondered since the GST has come in as to whether the concept of making a tax such as that more visible has been more effective or has had a negative impact in terms of the fact that it is so visible. People see it so tangibly. I understand the desire for that, and certainly I think consumers' groups and all that would say that it should be that way.

I am just wondering in terms of the impact it has on people, whether visible taxes are better than those such as the manufacturers' tax that some would call hidden tax.

Mr Spiro: Certainly from the point of view of transparency and being open with the public, one would say that it's desirable and preferable to have a tax visible and to let people know how much they're paying.

There were a variety of elements surrounding the GST, partly that it was introduced at the beginning of a

recession. There was also a perception by some people that while the total amount of revenue raised by the GST might be the same as had been raised by the old manufacturers' sales tax, that it was distributed quite differently: a shift in the short term, at least, of the burden of taxation away from corporations on to consumers. Some theorists will argue that corporations eventually pass all their tax on to consumers in any case. That may or may not be true; it's probably not true in the short term. In this case, since we're talking corporations involved in international trade, some of it would never come back to Canadian consumers in any case.

So, there were a variety of elements in it, I think, beyond the issue of transparency. A lot of people did immediately criticize it as a shift in the tax burden, and that probably contributed to the controversy and the unpopularity of the GST.

Mr Sutherland: I think that's it for now.

1650

Mr Lawrie: At this point in time, one little thing on that. I think if it's a question of showing sales tax separately added on to a basic price, whether it's RST or GST, I think it does concern a lot of consumers. I think the average person would prefer to have it one way or the other and not a mixture, because a mixture's confusing. You don't always look at the very small print at the bottom of the label to see if it includes the magic words "including RST, including GST." I think, obviously, value added tax is very similar in Europe to GST and there I think the practice is almost universal, that it's not shown separately at all; it's included in the price.

Mr Sutherland: It's incorporated into the sales price?

Mr Lawrie: Yes.

Mr Sutherland: My understanding is you can't do that with the GST, is that correct, you have to show it separately?

Mr Lawrie: You have an option. You can either show it separately or include it and post a notice, whichever one you use.

The Chair: Are there are further questions from committee members?

Mr Phillips: Maybe this was asked this morning, but from my perspective, if the staff have any studies you think we would find useful—I'm sure you've read every study that's probably been done—you might let the committee know about that and forward them, I guess, to the clerk. Perhaps it's already been done.

Mr Spiro: We already discussed that with some of the staff from this morning.

Mr Phillips: Okay, I'm sorry. The other is, as we go through this exercise, and I think we've got a good overview of the problem today, if you've any suggestions for solutions—and I'm not sure how you can do that and what role you can play for us. I'm sure the committee would be interested in that, even if it's not recommendations, but just things you may want to consider, because I'm looking forward to this being a useful report for us.

The Chair: Mr Sutherland?

Mr Sutherland: No, that's fine.

The Chair: Okay, if there are no further questions, I'm not certain if there were any questions the committee members wanted to ask the representatives from the ministry in camera, but we can certainly do that, if it's necessary. Does anyone have any request for that? No? Okay, then that's not necessary. Mr Jamison did want to ask you a question. He's not here; he responded to the quorum call.

I'd like to thank you, on behalf of the committee, very much, Messrs Lawrie, Spiro and Wallace, for attending today and making, indeed, a very comprehensive and fine presentation before the committee and following that up by answering all of the questions that were posed to you. Thank you very much.

Mr Spiro: You're quite welcome.

The Chair: To the committee members, our research officer has indicated by a paper you received that there is a list of reports. Some of them are quite thick and substantial in size. I just thought it might be important to let you know that the clerk will certainly have a copy of all of these available, but I think it would be appropriate that, if you had a specific request for those reports, you make it known to the clerk.

Mrs Haslam: I would be interested to see the list in that way.

Mr Sutherland: She distributed it before.

Mrs Haslam: Oh, I haven't seen it. I'm sorry.

The Chair: It was distributed this morning.

Mrs Haslam: Excuse me, Mr Chair, I thought you

meant she had added or had some other ones, because we had asked for some additional ones and I thought you were saying, because she had that new list, if we wanted something off it, we should ask.

The Chair: No, the list that was handed out this morning, those reports are available. Rather than give everyone a copy—that may not be necessary. What I'm saying is that the clerk will certainly have a copy of all of them available for your perusal. However, if you have a request for any of those individual copies for yourself, I would suggest you make those to the clerk and she will make sure you get a copy.

Mr Sutherland: I'm just wondering, without putting an excessive burden on our legislative research officer, maybe if we had a little summary, some type of a one- or two-page summary, depending on how lengthy they are, of each of them, then that would give each of us a better idea if we wanted to study the entire report in depth.

The Chair: Ms Campbell, the research officer, will make a comment on that.

Ms Elaine Campbell: That was requested by the subcommittee last week and the memo makes reference to that. We'll try to get a summary of each report together as soon as possible.

Mr Sutherland: Great. Thank you.

The Chair: If there are no further issues to be raised today, then this committee is adjourned until 10 o'clock next Thursday.

The committee adjourned at 1655.

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**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Underground economy

Économie clandestine



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 28 October 1993

The committee met at 1005 in committee room 1.

UNDERGROUND ECONOMY

The Chair (Mr Paul Johnson): The standing committee on finance and economic affairs will come to order. We're continuing our hearings into the underground economy.

Mr Monte Kwinter (Wilson Heights): Mr Chairman, I don't know whether it's a point of order, but it's a point of information: Can I get a clarification on this material that was just distributed to us?

On the memorandum dealing with the summaries of reports on the underground economy, on page 1, actually page 2 but the first page in the report, in the third paragraph the last sentence says: "Tax avoidance has, however, been compounded since 1991."

Can I get a clarification as to whether that's tax evasion or tax avoidance?

Ms Elaine Campbell: We'll check that.

Mr Kwinter: Okay.

The Chair: I would be inclined to agree with you, Mr Kwinter. I think it's evasion, but we'll check that out for sure.

ONTARIO CHAMBER OF COMMERCE

The Chair: Our first presentation this morning is from the Ontario Chamber of Commerce. I'd like to welcome Mr Eastman and Mr Couto to the standing committee on finance and economic affairs. Whenever you're comfortable, please continue with your presentation.

Mr Don Eastman: I'd like to thank the committee for permitting us to appear before you. I am Don Eastman, vice-president of policy for the Ontario Chamber of Commerce, and with me is Joe Couto, who is our coordinator of economic policy.

The underground economy is inherently difficult to measure because it is underground. We share, along with many other people in the province, the strong conviction that the underground economy is a large factor in the province and one that is growing rapidly. In consulting with our over 200 local community chambers, this conviction was very much confirmed, as Mr Couto can tell you.

In order to understand what is happening in the underground economy, it's useful to approach it in the same way a good detective approaches a complex crime: Look for motive and opportunity.

We should point out that not all of the hidden, unmeasured economy is illegal or even undesirable:

(1) Self-performed services are often overlooked but do improve overall economic wellbeing. Some examples would include doing your own car repairs, sewing your own clothing, home repairs.

(2) Volunteer services: time that's volunteered to help

Big Brothers/Big Sisters, the Canadian Cancer Society, volunteer work for political parties, even the chamber of commerce. This is work that would otherwise have to be paid for or simply not done.

(3) Informal exchange. Neighbours helping neighbours. Not formal trading arrangements but, "I'll help you with your fence if you'll help me with mine." A neighbour's sidewalk gets shovelled in the winter, and a few days later a couple of pies show up for appreciation. No formal trade, but the expectation that the street will continue to run both ways.

There are also two different types of off-book, money-based activities. One of these is activities that are hidden because they are illegal activities. The drug trade is the best example of this, but it's not the only example. Finally, there are money-based activities that are otherwise legal but kept off-book to escape taxes and/or regulation.

It is the last one that has been attracting attention and it's the one that we want to focus on today. However, we shouldn't forget the other parts of the underground economy. We feel that all of them are currently growing and costing the government taxation revenue. At least in the case of some of the volunteer activity, it's also saving the government spending, when the volunteer activity supplements our health care system and our social safety net.

While the rest of the economy continues to be mired in a long-term recession/depression, the underground economy is growing rapidly. Right now, we appear to be moving rapidly down the road to creating an economy where the real economic activity is hidden away from the tax collectors and the regulators.

In our detective work, let me begin by looking at what's been happening to motive. Most of the people in this province are like most of its politicians: sincere, honest and well-meaning. Nobody wants to feel that they are crooks or dishonest. But at the same time, nobody wants to feel that they are being taken for gullible fools.

I drove over this morning on the Queen Elizabeth highway. The posted speed limit on that highway is 100 kilometres per hour. Let me 'fess up and admit that at times I did exceed that posted speed limit. It was drive 110 or get run over.

The integrity of our tax system depends critically on the goodwill of the taxpayer. Large segments of our tax system depend on self-assessment.

The common threads that run through our investigation of this problem among our local chambers suggest a number of common sentiments: The tax system is not fair. Everybody else is cheating or trying to. A lot of the money that is collected in taxes is wasted by government. Government itself is less than 100% honest, open, and forthright; for example, the government's own accounting practices have recently come under fire from the Auditor

General. There is also an overwhelming regulatory, red-tape and paperwork burden. All of this has been reinforced by legitimate concerns about survival for businesses and income adequacy for individuals.

One of the major problems of our current tax system has been the lack of credibility created by an understandable but terribly destructive political opportunism. To a significant extent, the current government has been hoist by its own petard. Having lit the fuse on the credibility of the tax system, it has seen the issue blow up in its face as tax revenues have evaporated.

It is difficult for any of us here to recall the introduction of the personal income tax, but in my time there has never been a new tax as reviled and detested as the GST. Yet its rate is lower than the manufacturers' sales tax that it replaced, it's lower than the provincial sales tax and it's dramatically lower than the marginal income tax rates which are now over 50% in this province. They too drive people into the underground economy. The GST is fairer and less economically damaging than the manufacturers' sales tax that it replaced. It is also actually less regressive than the provincial sales tax, particularly as it applies to inputs to the food chain. However, it has been turned into a touchstone for public dissatisfaction with the current tax burden. Hey, I don't like paying it, but what are the viable alternatives?

The public is frequently subjected to the myth that a lot of large corporations are earning handsome profits and paying no income taxes. It is sometimes true that corporations do not pay income taxes, if you ignore last year's tax losses or the job-creating investments we all said we wanted. When you get past the superficial numbers and look at the total corporate tax burden, it becomes very clear that the vision of large corporate free riders is a myth.

Every time a politician takes a shot at the tax system without laying out viable, workable alternatives, it becomes another excuse for thousands more Ontarians to join the ranks of tax evaders.

Yes, there are some problems with the tax system. It is in need of revision and change, but the reality is that even if it were somehow possible to dramatically increase the taxes on corporations and on the so-called rich without having any impact on depressing investment and employment, the increased tax take would have only a minor impact on the average taxpayer.

It seems to us that those who have been most virulent in attacking the GST have been the same ones who have been screaming like stuck pigs when federal transfer payments have been reduced in response to the federal government's revenue problems. You can't discredit the system and expect it to work.

Let's turn now to opportunity. We see three major contributing factors on the opportunity side.

First, with the current economic problems there is a lot of unemployment and underemployment. That means that there are a lot of bodies out there available to participate in the underground economy.

Secondly, there has been a shift in the economy from large companies to small companies. That has been partly

natural but it has also been partly driven by a substantial bias against large companies in the tax and regulatory system. Taxes and regulations are too high for everybody, but particularly for large corporations. The reality is that it is a lot easier for small companies to engage in the off-book underground economy than it is for large companies. When the owner is the person behind the counter or who shows up at your door, there are not nearly as many checks and balances and auditing processes as when that person is the employee of a large, publicly traded company anxious to make sure that some of the sales revenue actually makes it back to the shareholders.

Finally, there are too many complex taxes which spread what should be an adequate number of collectors and auditors way too thin. Back to my highway analogy: Everybody seems to slow down a bit when they see the radar gun.

Now what to do about it: The underground economy is a major and growing problem. From your perspective, it represents a tremendous erosion of tax revenue. While initially you may say, "Why should an organization like the Ontario chamber care," it doesn't take much analysis to understand why it's a major problem for us as well.

First, the failure to collect taxes puts more upward pressure on tax rates and tax burdens for the legitimate tax-paying businesses that comprise our membership.

Secondly, our legitimate businesses are having to face a lot of illegitimate competition, competition that has lower costs because it is not paying taxes and may not be bothering with regulation. It's an extremely sensitive topic for our membership. It's a daily moral and ethical challenge for our members, one they shouldn't have to face.

What can be done about it? It's important to address both the issues of motive and of opportunity.

First, restore public confidence in the system. Begin by restoring the integrity of government. Please give us a truly clear set of books with consistent and defensible accounting practices. Be more vigilant over spending waste. Every time a high-profile story hits the news about wasted government spending, it becomes another excuse for tax evasion.

Restore the credibility of the tax system. Begin by simplifying the system and then enforcing it. It's essential to get spending sufficiently under control in order to reduce the current tax rate burden. Right now, the effective tax rate is over 60% when the personal income tax, PST and GST are combined. That is a powerful incentive for tax evasion and further growth of the underground economy.

Reduce and streamline regulation. The costs imposed by regulation are just as damaging as those imposed by taxes. The burden created by this province's corporate registration fee, for example, and the accompanying paperwork has been far greater than the \$50 registration fee.

On the opportunity side, we need to get the unemployed back to work in the tax-paying part of the economy. There has been a general failure to understand the private sector job creation process, and I mean a general

failure. It's not specific to this or to any other government.

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We need to start by making the effort to understand why much of the business community now considers Ontario to be a high-risk, hostile environment for job-creating investment. Once you take the time to understand that, it will become clear that some of the provincial legislative and regulatory initiatives have to be substantially changed and/or undone. We believe one of the starting points would be major changes to the Ontario Labour Relations Act, Bill 40.

You cannot have healthy social programs without a healthy, tax-paying economic base. You can't pay public sector employees without tax revenue from the market economy. You can't expect the business community to get up off the floor and start creating new jobs until government takes its foot off its neck and lets it up.

Thank you for giving us the opportunity to speak to you today.

The Chair: Thank you very much for your presentation. We have about 35 minutes. We could have till 11 o'clock, actually, because we do have a cancellation today. Let's start with Mr Phillips and maybe we'll do 10 minutes per caucus to start with.

Mr Gerry Phillips (Scarborough-Agincourt): I thank the chamber for the presentation. It's a subject that I'm keenly interested in. I'll start with trying to define the size of the problem. I think throughout your presentation you indicated that it's growing rapidly. I think you said somewhere here that it's a major and growing problem. The kind of rough analysis we've done suggests that we could be losing a minimum of \$2 billion in revenue a year and it could be up to \$4 billion of revenue a year when you just look at the various normal factors.

Has the chamber been able to get any handle on how large the problem is? When you say it's growing rapidly, give us any indication of how quickly you think it is growing.

Mr Eastman: I don't have any numbers that quantify it. Five years ago it was a non-issue for our members; this year, an extremely hot topic. Every business seems to have its own stories of the competition it has to deal with, of being confronted with customers who say, "Hey, I ain't paying the GST and PST, and either you swallow it or I'll take my business to somebody who will." You wind up with a lot of that going on, also very clearly a lot of competition from freelancers out there, people who aren't registered as businesses but who are conducting business, as well as those who have a registered business but are conducting a significant amount of activity off the business.

Mr Phillips: Just a supplementary on that: In terms of the issues that your members face, where would this rank? Is this one of the major issues they face or is it a secondary issue that they face?

Mr Eastman: I was surprised at how much response we got to that. Maybe you want to comment, Joe.

Mr Joe Couto: We had a very short time, obviously, to prepare this and to research it, but there are certain

topics that really push a button, I guess. When you start talking about taxation, the regulatory environment in the province, that's where you start getting a lot of the feedback.

In a very short time, in a week period before we were to come here, we surveyed our membership, the over 200 chambers in the province. The reaction we got back was, first of all, that they don't know at the local level how big the problem is. People at places like Cornwall obviously have had major problems, but even in places where this issue has never really been a major one I got a lot of feedback saying, "We know personally of members of the chamber of commerce who have come to us and said, 'Our competition has told us or has made it very clear that they are going to undercut us by ignoring the GST or the PST.'" I think the feeling we get back from our membership is that this is a very deep-rooted problem and it has gotten a lot worse.

As Don said, this isn't something that has come up in the last year or so; it's been an ongoing problem. But it's really hit a button because what we get back from the membership is that government continues to raise tax rates and continues to impose regulatory burdens on us, administrative burdens. The classic example of that is the \$50 filing fee. I have stacks and stacks of letters, of petitions, everything, on that specific tax, people saying they think that this is just another excuse for them to avoid even registering their businesses, even going out there and collecting the taxes they should be. They're offering their customers, quite frankly, these bargains, if you will.

In the end, we're all going to lose. Chambers of commerce do not like the underground economy. I think it undercuts legitimate businesses which we and the chamber represent, but it's so insidious and so ingrained that unless government looks at it from a taxation and a regulatory-burden point of view, it's not really going to be addressed.

Mr Kwinter: Gentlemen, I appreciate your presentation. One of the things that you seem to have zeroed in on is you talked about the GST and that it is the most reviled and detested of all taxes. When the GST was conceived and when the government of the day first floated out the amount, they had a 9% proposed GST, and then after a lot of criticism they reduced it to 7%. But it was supposed to be revenue-neutral, and it was supposed to really help exporters by making sure that they weren't paying a tax that didn't apply to products they were shipping out of the country.

It is my perception, and it's only a perception, that the average person feels there has been no saving with the GST, that the prices are still the same and that the GST is an additional tax, as opposed to the idea that it's not going to cost you any more, that we're just calculating it differently, that instead of having the 12% federal tax included in the price, we're going to reduce the price, and it's going to be revenue-neutral. We have situations where the amount of money that is being collected by GST is huge. We get stories like we had today, where some guy set up a dummy company, sent in a GST bill for \$1 million free, received it in 30 days and went about

distributing it to table dancers in the strip.

All of these things of course take away from people's confidence that somebody is in control. As representatives of the chambers of commerce and business people, what is your feeling about this particular tax? I think it's one of the major contributors to the underground economy, that when people go out and buy a product, they suddenly find they've got a 15% surcharge with the PST and the GST. How do your members feel about it? Are they accommodating, in dealing with their suppliers, the fact that there should be a reduction in price and that the GST shouldn't be increasing prices, or am I wrong in that perception?

Mr Eastman: You're very correct in the perceptions. The reality is that if you look at the rate of inflation, it really did replace it; it did not come through as an additional tax. But in terms of the way everybody has received it, there's no question that it has been a triggering mechanism. The question then becomes, why was it made into such a triggering mechanism, if you look at its rate relative to the provincial sales tax?

The chamber's position on the GST and PST is that we're deeply disappointed that the province did not opt into the GST so that we had one single tax and one set of tax collectors instead of having a double set of regulatory burdens. Within the chamber, I can say that we'd prefer it as an above-the-board, open tax, not in the hidden manufacturers' sales tax. There is still some ongoing debate on that, but I can say with some conviction that in my own opinion if it were a hidden tax, it wouldn't still be 7%. So it has been very much a triggering mechanism, but it's gone on top of a whole bunch of other things, and I think everybody in the room needs to look back and ask what their role was in helping make it part of that trigger mechanism.

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Mr W. Donald Cousens (Markham): Mr Eastman and Mr Couto, the chamber continues to be a responsible voice for society coming from business. I just want to congratulate you, first of all, on a very well balanced report. It's so easy to come in and start giving remedies, but I think you're very careful and show good judgement and wisdom in just trying to say, hey, there is a problem. You've polled your people and the course of action you suggest has a lot of common sense to it. You can't legislate that, but all of us have to continue to be reminded that we as politicians have a job to do.

I think what's happened in this committee as well is a good course of action, that we're at least starting to look seriously at finding the scope of the problem and then hopefully coming up with some remedies. I have seen probably one of the better spirits in this committee in the way in which we have gone about this, where there's certainly been a genuine sharing from all parties to try to at least get our hands around it.

One of the questions I had has to do with, when you did your survey of the municipalities, whether they had any sense of where some of the underground economy is most manifest. Are there some particular types of the underground economy that are more prevalent than others, and if so, what were some of the illustrations that

were brought to your attention? We're having trouble, and you said it already; it's so well hidden that you don't exactly know where to look. We have a sense of where to look. Do you have any direction to give us as to some of the areas that maybe would yield some extra facts for us?

Mr Couto: I think most of the problem here lies predominantly with smaller-sized businesses. I think once you get outside the Metropolitan Toronto area, that's what we're dealing with in chambers of commerce in smaller communities. I think a lot of this type of activity is most prevalent in home repairs, car repairs, things that people have to do. You can put off purchase of a new car, you can put off purchase of a new house, but you have to keep your car and your house in shape.

We've had chambers of commerce coming to us and saying, "We have a member who does home repairs, and our estimate from that member is that in the home repair business, at least 50% is underground," underground in this case meaning they will provide an estimate to the customer and the customer will say: "Well, your competition down the street has said that they will match your price plus they will ignore the GST and the PST. Are you going to be able to do that?" Our member has to do the same thing and probably a little bit more in order to get that business.

That's the type of business we're looking at here, and that's very hard to really get at in terms of the government inspectors. They already are spread too thin. How do you get at that guy who decides he's going to do a job and not report it? Basically what we're saying here is, he's not reporting it through the tax system.

It's a real problem for small businesses. Retailers have to do this kind of stuff also, and again what they're saying—this is a cry for help. They're not trying to be dishonest here or anything. They're saying, "I have to try and survive here, and the only way to survive is basically by breaking the law." We don't condone that and neither do our members, but if it's a question of survival or being honest and aboveboard and going under, a lot of people have to make that kind of choice.

Mr Cousens: The point you have made in your report has a lot to do with our having reached a tax wall: the GST, the perception that Monte talks about, the level of all of the increases. Do you feel there are other contributing factors to the breakdown in what I'd call societal values in the increase in the underground economy in things such as media or in TV? Are there any causes for this breakdown, other than just government, that you've come up with?

Mr Kimble Sutherland (Oxford): Other than what?

Mr Cousens: Well, just the government taxation levels.

Mr Sutherland: Oh, I thought you said this government.

Mr Cousens: No. I'll keep it clean for another 15 minutes.

Mr Eastman: There's a natural human tendency to believe we're hard done by. Will Rogers once made the comment that all of us are prepared to meet the other

fellow halfway; it's just that we're lousy judges of distance. We enjoy information that helps us believe that somehow we've misjudged the distance in the other guy's favour so we can extend the line a little bit. I think there is a natural inclination on the part of all of us to believe that we should have more than we do and I think that becomes tremendously amplified when you wind up in the kind of extended recession/depression that we're in right now. So there are a lot of factors that feed into that. Tax rates are a major issue, but on top of that you have the basic issue of fairness, which is, "Hey, is everybody paying us right?" Such things as even the tax-free allowance for elected people becomes part of the rationalization. "Hey, I don't get that."

Mr Cousens: Just one final quick question then. Is there a need for more policing in order to address this as an issue, or was that raised at all in any of your surveys?

Mr Couto: I don't think you're going to solve the problem, quite frankly, by sicking the cops on our members, okay? There are not enough inspectors out there. They do a very good job with what they have, but like all of us, they are facing resource problems.

I think businesses are really looking to governments here to address the problem, and the only way you can address this is, first of all, being totally honest with people: not just businesses but taxpayers. I can tell you that the recent media reports of the Provincial Auditor's problems with the Finance minister have had an impact on people's perceptions of what is being done by their representatives at Queen's Park, and that produces that, "Well, they're not being honest; why should I be honest?" sort of thing; "Let them clean up their house; then I'll clean up my house" sort of thing.

Quite frankly, we don't want the province to be papered over by inspectors going around laying charges and fines. It's not going to stop it, until we address the fact that people are just feeling overtaxed. They are spending too much time adhering to regulatory and administrative burdens when what they should be doing is creating jobs. That's hurting workers in this province and it's hurting businesses. It's hurting governments because the revenues obviously are taking a hit.

It's not the solution, just policing it better. I think the government inspectors do a fine job as it is.

Mr Sutherland: I have just a question of clarification and then a specific question. On page 4 of your report you said, "Right now, the effective tax rate is over 60% when personal income tax, PST and GST are combined." How do you come up with 60%? We have different tax rates, but you were saying that it's 60% for everybody?

Mr Eastman: No, what I'm suggesting is that when you're looking at the tax evasion problem and saying, "Okay, what is the potential tax savings for a tax evader," it is not just the PST or the GST; you also have to look at their marginal income tax rate as well. When you combine the income tax rates, you wind up with different levels of rates, depending on where you are in the progression. Certainly the highest effective tax rate at the upper end is now over 50%, and it's also well over 50% at the lower end when you look at the clawbacks on social welfare payments.

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Mr Sutherland: My other question is, you mention in your presentation about the sense of waste in government, the sense of not getting effective value for tax dollars or how tax dollars are spent. Certainly, all of us hear that a great deal, but when I look at the budget, the majority of the provincial budget is spent in Health, Education, Comsoc, and if you add Transportation in there, you're getting almost 75% of the provincial budget being provided in the essential services that most people say they have wanted.

The sense is that the vast majority of the money that government is spending is on providing services to people, services that many people feel are very important and essential, services that have come to help define us as Ontarians and Canadians. Yet we do seem to be having a growing sense that people want to still maintain the Canadian level of services but they'd like to have American tax rates to do that. Do you have any suggestions as to how you educate people to deal with that, to understand that the money is going to what they want, to services?

Mr Eastman: The high-profile things I was referring to were perhaps things that in themselves don't amount to a great deal of individual money. I'm talking about the high-profile things, things for instance that recently hit the press on providing home pay for somebody who's over in Denmark. Again, the total bucks on that aren't much, but that kind of thing kicks in in a hurry. When people get the numbers on the video that the province did on its NAFTA hearings, these are the things that are very high-profile and say, "Hey, government is wasting money."

There are also some much larger budgetary issues at stake, but I quite agree with you that on those larger things, there isn't an instantaneous solution for those. But you really have to be extremely vigilant about the oopsies that occur down in the departments that then hit the media.

Mr Norm Jamison (Norfolk): Thank you for your presentation. I apologize for being a little tardy in getting here, but those things happen.

I'm a little confused by some of the answers to the questions. I'm certainly not saying that your answers are correct or incorrect, but in our presentation from the Ministry of Finance, for an example, the advent of the GST showed clearly in graphic form the increased magnitude of the underground economy taking place almost simultaneously with the advent of the GST and the introduction of that legislation.

In our preliminary report, it indicates that small business people, for an example, the contractor that you were talking about earlier, has actually had his costs increase by 4% with the advent of that particular tax. Given the recessionary times, talking to some small contractors myself, there's an overwhelming competitive situation out there, and not all of what's being taken in by individual contractors is being reported. It's become quite evident.

The other thing that I'd like to just touch on is the

combining of the remittance of tax. The question is that certainly in traditional areas, the tax itself, the GST, invades what was provincial jurisdiction to some extent, but it also applies to every service; not just every purchase but every service that's paid for. This is also causing a strain in a roundabout way to the individual small business person who automatically pays 7% more on his hydro, his heat, whatever. So combining those taxes has always been the question, but once we've done that I guess provincial governments see it as an acceptance that the federal government take over what used to be an area of taxation for the provinces. Of course, we can't forget that the Liberal Party has indicated now that it plans on definitely changing the GST. That measure then would be redundant, and in fact we don't understand exactly what the change might in fact be.

I'd just like you to comment on those particular things that I've brought forward.

Mr Eastman: There's no question that the GST was part of the triggering mechanism. As I said before, the issue is, why was it made into such a triggering mechanism? Certainly, there were some parts of the economy that had not previously been paying the manufacturers' sales tax that now pay the GST. But if you compare the application of the GST to the application of the PST, I don't see a lot of difference except that they apply differently enough that there's a heck of a lot of additional paperwork burden that comes with that.

It is what came in as basically a discredited tax. If you look at the federal level, I cannot see good alternatives to the GST or another form of hidden value added tax at the federal level, which is even worse. The alternative to the GST is one that I suggested to the federal government, which is that, frankly, if you can't get the provinces to opt in, what you should consider is eliminating the GST and cutting back transfer payments to all of the provinces by an equivalent amount and letting them find their own revenue.

But the first law of economics is that you can't have more than there is. If you want the tax revenue, you have to figure out how to collect it and you have to figure out how you can sustain a healthy, economically viable economy that's going to pay it.

Mr Jamison: Just a quick question further: It's been indicated by some sources that the GST in its present form is one of the most costly taxes to actually bring in. There's some suggestion from some circles that it costs 20% of the total intake just to collect that particular tax. You dealt with perception, and we're dealing with the fact that perception sometimes becomes reality. When you deal with that, people are saying, "Why are we doing it that particular way when it costs 20% of the whole value of the intake on that tax just to administer the system?" This is something that people see and say, "Big government, big bureaucracy."

Mr Eastman: There was a major offset in the first year as people were paid to help set up their systems; I'm not sure what the current administrative fee is. But I'm not here to defend the GST. What I'm saying is that, hey, if you knock the heck out of the credibility of the system, you encourage people to try and find ways to escape it,

to avoid the taxes, and that's what's happened here.

The Chair: Just to let the committee members know, we're going to go till 11, if that's agreeable to everyone. Then we have another presentation. We have four people who would like to pose questions: Mr Wilson, Mr Phillips, Mr Sutherland and Mr Cousens. You can see the time on the clock there, so would you judge yourselves accordingly.

Mr Gary Wilson (Kingston and The Islands): Thank you for your presentation. I just actually have a follow-up to Mr Sutherland's question that speaks to the fairness of the tax system, and that is, I found a bit of an imbalance in your presentation in that you don't say very much about the good use that taxes are put to and raise the possibility of whether that's a prospect.

1050

You talk about the high-profile items that are in the news, but why are they high-profile? Do we do enough as individuals and as businesses to praise the tax system and what it provides in the areas Mr Sutherland mentioned: health, education? In fact, these provide a good setting for business activities. That is, we have well-lit streets, for instance, a good education system, a good health system.

The first item you mentioned in your list of the complaints about the tax system is that it's not fair. As you know, we have a Fair Tax Commission under way now. I just want to know what you think about how we can make the perception of the tax system what it is, that it provides a lot of good services that people want, and how we can make it fair, whether the Fair Tax Commission is a way to be going on that one.

Mr Eastman: Let me address the government spending part of that first. I think some of the most important things we do as a society we do through government, through public spending. That comes to our standards of health care, education, social safety net, policing, roads etc. The problem we've got is that most people in this province believe that they have had those things for a very long period of time but that they are now facing much higher tax rates for what appears to be a level of government service that has been heading down. Again, that may be perception rather than reality, but it is a widespread perception that they are paying more and receiving less for that.

In terms of the fairness of the system, the concept of the Fair Tax Commission has been great. I think it has suffered from a lot of teething problems and I'm not sure it's ever really gotten over them. One of the major problems has been that the average person out there has to understand that regardless of how much we tinker with the tax system, their average taxes aren't going to change much. Certainly, there are some real problems out there in the way some things are paid for. There are inherently a lot of problems with making the property taxes pay as much of the education burden as they do etc, but at the end of the day you wind up moving a lot of taxes around. If the average person thinks they are going to wind up paying less instead of paying what they do more fairly, they're mistaken. That message has not gotten out yet, and if that can come out of the Fair Tax Commission, it

will have done a tremendous service to the province.

Mr Phillips: My view is that in the 1980s a lot of people thought the way they could survive was buying wholesale, so there was a big push to buy wholesale. I'm almost getting the feeling that tax evasion is the 1990s equivalent of buying wholesale. It seems to me it's becoming fairly pervasive. As I read your brief, on page 2 of your brief I get the sense in the middle of the page that many of your members who aren't participating in the underground economy seem to be on the edge of it. When they say everybody else is cheating or trying to, I guess the implication is that they're not but everybody else is.

The message I'm getting out of that middle page is quite a frightening one in some respects. If it's a big problem that's measured right now—in my view, it's a \$2-billion to \$4-billion provincial issue right now—if that's the case, this message here is that we're on the edge of it becoming an even bigger issue, kind of the 1990s equivalent of buying wholesale. Am I over-interpreting your comments here and am I being overly alarmist in terms of the message you're giving us here?

Mr Eastman: No, I think that's precisely correct. I think we really are at a point where, as bad as the problem appears to be, there is very much the danger that it can get substantially worse. I think some of the horses are out of the barn already, but by no means all. But unless we try to figure out what we're going to do about that door, there are going to be some more out there.

The Chair: Mr Sutherland.

Mr Sutherland: I'll pass.

The Chair: Mr Cousens.

Mr Cousens: One thought I had: Your report has enough to say on taxation and regulation that it touches a chord with what our caucus is doing with the Harris task force on taxation and regulation and reviewing the province, so I'd invite you to make a presentation to that to touch on some of these issues as they affect the paper from our own caucus that will flow from that. I hope you'll accept that as an invitation even now, to come and make your pitch on behalf of the chambers.

Mr Eastman: We'd be happy to do that for you and for the other caucuses.

Mr Cousens: Thank you very much. That's good.

Mrs Karen Haslam (Perth): We're talking so much about tax evasion. I found it very interesting when the ministry came to talk to us and some of the things they had to say. For instance, when they looked at the United States in particular, and I'm not saying Canada is like the United States, they found that 89% of the income was unreported by informal suppliers, 52% of the income was unreported by sole proprietors and 40% of income was unreported by small corporations. But you seem to say that your members always know somebody else who has not reported an income tax evasion. I also found it a very interesting comment from one of the gentlemen who said that if we lowered taxes by an overall 10%, the increase in revenue would only be 2%, so that the government would be at a loss of 8% for revenue.

We're looking at the underground economy, and it

became very clear in the ministry's presentation that the underground economy was complex and was not solely as a result of the level of taxation. What other factors did you find in your study leading to the underground economy? I know we've looked at regulations. We've tried to reduce some of the regulations, reduce some of the paperwork. We've heard that loud and clear. Are there other factors that you have found?

Mr Couto: I think the only other major factor that came up over and over again was the paper burden, and again that ties into regulatory problems, especially for small members. You have to remember that small business is the only growing sector in this economy, and we estimate 77% of our members to be small business. When you take them away from doing what they do best, which is running their businesses, hopefully making them grow, hiring new people, when you take them away from that because they have to fill out forms, in effect we're depriving ourselves of revenues, of generation of wealth.

Mrs Haslam: I was listening to Minister Churley in the House the other day talking about the \$50 fee and the fact that there are so many errors and missing pieces in the database now around corporations that I would think that it would be easier to watch tax evasion, to watch the profits and the people claiming income when you have a proper database. If the cost of that database is prohibitive and yet it helps the businesses in the long run, isn't it important that we do have a good database and we do have the proper information around corporations and income and some of the other issues around the paperwork?

Mr Couto: I think you have to look at it from the viewpoint of business persons who are quite frankly overburdened, I would say. It's not so much the \$50 that they have to provide you, and we all understand that you need revenues in order to compile this kind of information, and the information is needed, as you say. There's no argument there. Again, we come back to perception, though. If people think, "Here's another \$50 for more paperwork," whether it's needed or not doesn't enter into the equation for these people. They simply are saying, "Here's another form of taxation by the so-and-so government."

Mrs Haslam: Would one of your suggestions be, in a simplifying way, one form that includes many different aspects of the paper necessary?

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Mr Couto: I think anything that you can do to streamline the process—

Mrs Haslam: What about electronic and the new technologies that are available, and computerization? Would that assist businesses in keeping their records up to date as well as reporting to government?

Mr Couto: It would, but again you have to remember that a lot of the smaller members, even now, are not computerized and still do the old bookkeeping with the big book. We have to work towards that. We encourage our members to computerize, and certainly the government should look at that area and encourage it. If that cuts down on the costs and the time, we're all for it.

Mrs Haslam: In my riding, I think of farmers as small businessmen, because they are, and small businesswomen, because there are women in farming. I know there are courses available and a lot of the family farms and farm communities are going into computerization, because they realize it is an easier way. We're looking at two people running 150 to 300 acres. That's a large small business and that requires them not to just operate on a small counter; they're out in 100 acres of field. I feel computerization may be the way to go.

In your report you seem to indicate that the large corporations, by and large, were hard done by. I'm sorry I don't have the facts and figures, but I heard recently that there were a number of large corporations like the Coca-Cola company that didn't pay any taxes. You seem to indicate in your report that the large corporations have a hard row to hoe and therefore there are other ways of dealing with the problem.

Do you know of larger corporations that pay no income tax and do you think that's fair to your members in the chamber? Because I always look at the chamber as representing small business.

Mr Eastman: I'm glad you clarified the second time around that it was income taxes. I'm not sure of the specifics of that particular company. I do know that normally that wonderful status of having made profits but not paying any taxes on them either occurs as a result of either having had some terrible losses in previous years or they are in a very active investment program, which means that they are spending money creating jobs and that as a result there is no flow of cash out of the corporation. To the extent that money flows out of the companies into dividends, that is still taxed. Those companies are still paying corporate capital tax, property taxes etc. There's nobody out there getting a free tax ride that I'm aware of.

The Chair: Ms Haslam, I'm sorry; our time has expired and we do have another presentation to hear. I'd like to thank Mr Couto and Mr Eastman for making their presentation on behalf of the chamber of commerce before the committee today.

NON-SMOKERS' RIGHTS ASSOCIATION

The Chair: Our next presenters this morning are Garfield Mahood and David Sweanor, representing Non-Smokers' Rights Association. Please come forward and make yourselves comfortable. Whenever you are comfortable, please proceed with your presentation and identify yourselves for the committee members and Hansard.

Mr Garfield Mahood: Mr Chairman, members of the committee, my name is Garfield Mahood. I'm the executive director of the Non-Smokers' Rights Association. I'm here with my colleague David Sweanor, who is senior staff legal counsel for our organization. David is also an expert in issues of tobacco taxation. I'd like to expand on that introduction in just a moment.

We've certainly been involved in a significant way in tax policy issues in Canada. By way of introduction, David has been published extensively on tobacco taxation and smuggling issues. His manual on tobacco taxation has

been translated into other languages and is used by health organizations around the world. His publications on this subject are considerable, and I think what he has to say will be enlightening.

I'll just begin with one little introductory comment. We call it the "poor me" analogy, and that is, if you can imagine any problem drug on the market, cocaine, for example, imagine a situation where someone came to the government and said with respect to cocaine: "We know who is producing it, we know when they're producing it, we know where they're producing it. We know when it's shipped out of the manufacturing facility, we know where it's going, we know the distributor who receives it. We know when the distributor receives it, where the distributor receives it, when the distributor passes it on to others, who ultimately put it into the system. We know where, when and how they do it."

With all of this information—we know who's receiving it, where they're receiving it, when they're receiving it, how much they're paying for it—at the end of the process, if a government stood by and reacted to that cocaine problem by saying, "Poor me. We don't know what to do. We simply haven't got any solutions," people would respond to that as an absurdity, and of course it is. If you take that and parallel that with what David will tell you about the tobacco issue and the smuggling issue, I think you'll gain some insight into what can be done from our perspective. David?

Mr David Sweanor: Tobacco taxes certainly have at least two very important purposes, one that you'd be paying a lot of attention to here, which is revenue. Tobacco taxes bring in close to \$1 billion a year to the Ontario government right now, far more than what they used to bring in if you go back several years, before tax increases under the various governments.

But from a health standpoint, the important thing about tobacco taxes is that they affect the affordability of tobacco. What we've been able to do is reverse a trend. From 1950 to 1980, we allowed the real price of tobacco, adjusted for inflation, to fall while disposable incomes were going way up, and tobacco consumption skyrocketed. It was much higher than would ever have otherwise been the case, and we had a very high rate of smoking among kids. Teenagers are very price-sensitive.

If you look at what has happened in the last 10 years as prices have gone up, we've reduced adult per capita consumption by about 40%; we've reduced teenage per capita consumption by about 60%. It's far and away the most important measure that we've used to date in reducing tobacco use, and that's very important from a health standpoint, because as your chief medical officer reiterated again very recently, tobacco kills about 14,000 people a year here in Ontario.

The World Health Organization estimates that about 500,000 Canadians are going to die in the next decade as a direct result of tobacco use if we don't change current patterns of consumption. Some of the changes we've seen are certainly going to have an impact, they're having a big impact, and Canada's going to be used around the world as an example of the sort of things you can use to reduce tobacco use. It goes far beyond what we're doing

specifically on taxes, but taxes are an integral part of that.

The issue about smuggling: I think we have to look at what has caused smuggling, and it isn't simply that our taxes are, as many people in the tobacco industry would claim, too high. That isn't the reason. Canada's taxes are not that far different from what you find in northern Europe. What we have is the ability to avoid the taxes. Why do we have a smuggling problem and the UK, for instance, does not, when their taxes are very similar to ours? In fact, with the budget in about a month, they might be higher than ours. The fact is we've been able to have a problem created by the very low taxes in the United States and the ability of people to exploit that situation.

To try to put some of that in perspective, there is something that I believe has been distributed that gives some background information. The very last page of that gives an idea of tax incidence in various countries around the world; that is, what percentage of the retail price of your typical pack of cigarettes is going to taxes. Ontario is below average for Canada, but we find that Canada is very much in the middle of what you'd find around the world. The United States is very low.

The page just before that shows taxes across Canada. Ontario's tobacco tax is actually the lowest in Canada. When you add on sales taxes, because they don't have that in Alberta, Alberta ends up with the dubious distinction of having the combined-total lowest taxes in Canada.

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But it's not just that our taxes are too high. As you have that stuff in front of you, the very first graph is important to look at because it shows the relationship between price and consumption; this is per capita consumption 15+. You can see that per capita consumption was basically on a plateau until prices, which is the bottom graph, went up. As price goes up, consumption goes down, a pretty simple equation.

Also, as prices go up and consumption goes down tax revenue goes way up, which is the second graph. Canadian governments were bringing in about \$2 billion a year from tobacco taxes 10 years ago and over \$7 billion last year.

The next graph, the one that's probably the most important for health organizations, is kids. Regular smoking among 15- to 19-year-olds was in excess of 40% in 1979; it was 16% by 1991, the most recent figures we have. All the research shows that kids are very price-sensitive.

We move from that into understanding the nature of the problem. I think a big part of the problem, and something that we're not addressing with anywhere near the seriousness that we have to, is the role of the tobacco industry itself. By this I mean the tobacco manufacturers.

I think we have to recognize that when we're dealing with this problem, with all the problems associated with tobacco use and what governments are trying to do for public health, but also what governments are doing in the area of smuggling, the tobacco manufacturers are not our friends. If we look at their vested interests, who is supplying the smuggled goods? Some of the tobacco

industry's own estimates say that they are supplying over 95% of the tobacco smuggled into Canada.

Do they have an interest? It sure sounds like it. They're stimulating demand. There's more tobacco being consumed than otherwise would have been the case. They're making money from that. They're undermining tobacco control efforts in Canada to the extent they could force governments to back down on this. It would be tremendous for them and it would be a horrible tragedy for public health.

I think the tobacco industry has some complicity in what's been going on. If you look at the sorts of campaigns they've been running, what did they do after the 1991 federal budget put up tobacco taxes a lot? They ran ads saying, "Mike Wilson wants you to step outside for a cigarette," with a sign saying, "Welcome to the USA."

They have constantly exaggerated the size of the problem. We've caught them on this many times, but it's been creating this image that it's a much bigger problem, growing much more rapidly. I think like anything else in the area of tax avoidance, if somebody tells you, "All your neighbours are doing it, everybody's doing it and everybody's getting away with it," does that get people thinking that they won't try or does it actually encourage people to do more?

I think the tobacco industry has also done a very good job of thwarting anti-smuggling measures, everything from killing the export tax that the federal government had implemented to running roughshod over ideas of marking tobacco products to the way that they package tobacco products for the export, ie, smuggling, market.

I believe the tobacco industry's argument that what we have to do is take our taxes to a US level is simply a non-starter. What that will do is reduce tax revenue and increase consumption. In fact, even if Ontario removed all of our taxes on tobacco, our price would still be higher than what it is in the United States today. The Ontario government would have given up about a billion dollars in revenue and would have stimulated consumption. According to the relationship between price and demand for tobacco, you'd expect at least a 15% to 20% increase in tobacco consumption and much more than that among our young people.

It would be a terrific example to all sorts of other tax avoiders that if you want to get rid of taxes, you just have to put an awful lot of pressure on government, it'll back down and it'll just find a billion dollars from some other taxpayers.

In taking reasonable steps to deal with this problem, we have to start off by recognizing the economics of smuggling. What has made it possible? We didn't have a smuggling problem until our prices were more than twice what they were in the United States. But the economics of smuggling are such that you have to sell the product at a price that consumers are willing to pay, which for any hot or illicit merchandise is always lower than the regular price.

The people who are selling it to them want to make a bigger margin. The margin increases according to the risk they're running. The distributors want a bigger margin

than legal product people want to make because of the risk they're taking. You have to be able to sell it to those distributors at a price that allows you to make a profit big enough to justify your risk.

I think that we can deal with the economics of the smuggling all the way along. I think we can affect the price they have to pay for it when they buy it on the US side of the border. I think we can affect the size of the margin that a distributor, that the smugglers themselves want to make for bringing that into the country. We can affect the margin that a retailer, whether it's somebody in a store or with a duffle bag, wants to make, and we can certainly affect the price that people are willing to pay for it. We can take away a lot of the profits.

I think some of the things that would allow us to do this, just looking at what are reasonable steps to deal with this to try to preserve the revenue while simultaneously preserving the health gains that we've had, certainly there are some things that are more within the federal domain than Ontario's to stop the industry from playing these back-and-forth across-the-border games: you know, simply shipping the tobacco to the US side of the border, avoiding all taxes and recognizing exactly what's going to be happening to that product. It's been amazing to us that the industry has been allowed to get away with that for as long as it has.

But we can also take a lesson from other countries. Inside the package of materials we've handed out, there's a diagram of a tobacco product from Germany. That's a tax stamp. One of the lessons about getting rid of illegal markets or reducing illegal markets is to distinguish between legal and illegal. One of the taxi rides I had up from the Island Airport recently, the cab driver had a pack of illegal cigarettes. I asked him if I could have it, because I thought it would be great for demonstration purposes, and he was completely confused.

He said, "What do you mean?" I said, "Where did you get them?" He said: "What do you mean, 'Where did you get them'? You get them in any store. I got these at a gas station." I said, "How much did you pay?" He said, "You know, \$6, whatever it is." I said, "You paid \$6 for illegal cigarettes?" He said, "What do you mean 'illegal'?" He had no idea that what he bought didn't have taxes paid on it, because of the similarity of packaging between the legal and the illegal. Somebody makes a lot of money selling things like that. It gives them an incentive to get into the business.

We've had the same experience ourselves with going into stores. Right on the counter-top displays you have illegal cigarettes. But unless you know what you're looking for you don't realize what they are. In western Europe, where countries do have different tax rates and they have borders not that far different from the one we have with the United States, they've moved to putting tax-paid markings on the legal product to distinguish legal from illegal. The bigger the potential smuggling problem, the bigger the marking.

You don't go for the sort of things that the tobacco industry has been able to get away with in Ontario, that little yellow tear strip. When I talked to some folks with the treasury in the UK, they said that deserves an award

for one of the least effective anti-smuggling measures ever devised. That is something that's incredibly easy to counterfeit, and as soon as you remove the strip there's absolutely no indication that taxes have been paid.

What is done in other countries and what we'd recommend for Ontario is to have that tax-paid marking on the package itself underneath the cellophane, and you want it prominent enough that the absence of that marking is immediately an indication of illegal goods. That makes it so that a consumer who doesn't want to promote crime isn't inadvertently promoting crime and buying that. Somebody who does feel like they want to rip everybody off is also going to want to rip off the person who's selling it to them and won't pay nearly as much, which reduces the profitability and makes it much easier to enforce the law.

If you're trying to say that they're illegal cigarettes, number one, the average consumer can't tell and, number two, cops aren't taking it very seriously. But if there was a measurement there that anybody looking at it—you know, retailers tell us how people come to them wanting them to sell illegal cigarettes and say: "Everybody else is; you may as well. Your chance of getting caught is nil." If your chance of getting caught was greater, fewer people would be doing it. If the marking was right there, you'd know anybody could turn you in, including a legitimate retailer who doesn't like the competitors undercutting them. It helps to fight crime. Let's take something like that.

Provincial health messages would be another thing. That would be a good indication of whether or not Ontario's taxes have been paid: Is there an Ontario health message on those packages? Which gets into another whole area, which is that taxes in Ontario and elsewhere in this country on tobacco have been justified because of the extraordinary health problems associated with tobacco use, but we've had stronger statements of public health from our treasurers than we've had from our health departments.

In effect, what we have for an awful lot of people is taxation without explanation. We should be telling people why this product is taxed the way it is. We should be consistent. It's not surprising that people don't take us seriously on tax policies when you walk into a store and the stuff is displayed on the counter tops like candy, when it's glossy packaging, it's sold in small packages that are appealing to children, it's promoted in wonderful promotional materials, it's sold by health professionals such as pharmacists. We're giving a really inconsistent message.

I think if we want to have our laws enforced on taxes, we should show the public why these are important. Let people know what the basis is and I think we'll have greater enforcement of our existing laws. We have to show a consistent position.

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Finally, the thing that probably would have the greatest impact, both short-term and long-term, is to work with adjoining states, to work with the United States on this issue. As you may know, Bill Clinton has already proposed an increase of 75 cents US a pack to finance his

health care reform. That's great news for us. It's great news not only for reducing smuggling by putting up the price on the US side of the border, but, heck, they'll get health care in the United States and you have fewer people sneaking across here to try to abuse our system. We win both ways: We save on health care and we reduce crime.

The tobacco industry is totally misrepresenting the situation in Canada in Washington. Canada is not responding. If the feds won't, maybe there's something Ontario can do in terms of information; more importantly, even with our immediately adjoining border states. New York increased its taxes this year by another 17 cents a pack. It went through very well; the government was very pleased with it. But they had very little information from Canada about what they could do, how much higher they could go.

In Michigan a couple of weeks ago I testified and had the joy of sitting later watching representatives of the tobacco manufacturers completely misrepresent what's happening on this side of the border without the ability to respond; sitting and thinking, wouldn't it be nice if there was a representative of, say, the Ontario government here who could simply pass around a business card and say, "If you want to really hear what's happening in Ontario, we're very willing to tell you."

Meanwhile, the Governor of Michigan just this week has come out in favour of a tax increase of at least 50 cents US a pack. That's significant stuff. That would reduce the problems we have with cross-border shopping and smuggling. We shouldn't leave them hanging there. We should be concerned when we see advisers to US governments, whether state or federal, accept the tobacco industry line that taxes aren't affecting consumption in Canada, that they haven't worked, that they're not reducing consumption etc. The evidence is completely to the contrary.

I think there's a lot we can do to work with those jurisdictions. It's not a matter of us going in and roughing them up and telling them, "Do exactly what we want." It's a matter that they want to replicate what we're doing. They've seen the results: Teenage consumption of tobacco products in the United States hasn't fallen in the last 10 years. It's US research on which we based our approach when we increased taxes and saw the decline here. They want to do what we've done. Let's give them the information. Let's at least dispel inaccurate information they have.

The only other advice I have, because I do a lot of work in the United States, is that I've found in the last few weeks that baseball jokes don't go over very well any more if you're from Ontario. That's the only advice I give.

That's our testimony.

The Chair: Thank you very much for making your presentation. We have about half an hour for questions. We'll start with Mr Cousens.

Mr Cousens: Maybe you could elaborate on the hearings going on in Washington and give us a sense of two or three elements: (1) confirm again that there's been

no representation by Canadians on this issue—I find that somewhat surprising—and (2) the kind of inaccuracies you're mentioning from the tobacco companies, if you have any specific types of statements they're making. You've said generally that they're saying things are okay up here. I'd like to have more evidence to support what you just said.

Mr Sweanor: If we start off with what's going on in the United States, basically they're looking for ways to promote health and to raise money, which is exactly what had happened here. Tobacco taxes happen to be one area where, as public opinion polls in the States show, you end up in exactly the situation we have here. It's win-win-win: You save a lot of lives, you raise a lot of money, and it's popular. When you're looking at things like funding health care reform, about 80% of Americans support large tobacco tax increases as a way of doing that.

They've seen, as I said, the same problem we've had here, where their taxes have actually fallen in real terms. If you look at what their taxes were in the early 1950s in the United States and simply adjust for inflation, they're much lower now than they were then, even though during that time we found out all the health information. If you look at tax incidence in the United States, the percentage of the retail price that goes to taxes, from 1955 to 1991 you can see this downward trend; it's been chopped in half. That's part of the interest in what they're doing. They have to raise billions of dollars. In the case of Michigan, you may know that the property tax basis they use for funding their education system was removed. The government has to find, I believe, \$4 billion a year and it's hard to find that sort of money, as you guys all know.

One of the obvious things to do in looking at a tax system is that for most of the things we want to do—and it's the same thinking that's going on in Washington—most of the ways you raise taxes, if not all, affect behaviour. If you increase income taxes, you reduce the incentive for people to work or at least to report income. If you raise taxes on interest income, people might save less for their kids' education. If you increase capital gains taxes, people might invest less money in the economy. You raise consumption taxes and people consume less. In the case of tobacco, that's exactly what you want to do, so that's where they're headed.

In terms of information from Canada, we get calls—I believe in the last year it's been from over 40 states, everything from health organizations to governors' offices, wanting information on what's happening in Canada, because they've heard of the stuff we've produced. They've seen things in the US media where we do some amount of work.

We don't have people we can refer them to inside government, the federal health department, whatever. We've been trying to get External Affairs to assist with what's going on in Washington because of how important that is to Canada. We have not seen results of that. We have seen testimony from some of Clinton's officials that indicate they have been briefed from the tobacco industry and probably not from anybody to dispel some of that nonsense.

In terms of some of the things the tobacco industry is saying, they will say that tobacco taxes do not affect consumption. That is very interesting for anybody to say, that nobody is price-responsive. The sort of comments that are being made in the United States are very similar to the sort of comments we've seen being made here in Canada. For instance, the current president of the Canadian Tobacco Manufacturers' Council, the lobby group here, is quoted in the Canadian Tobacco Grower this year as saying, "It is not the case that increasing price leads to a decrease in consumption." If you've heard from them or will hear from them or ask them, they will now tell you that there is no relationship between price and demand.

There's the sort of information you can see in annual reports from tobacco companies. The latest annual report from Imasco, our biggest tobacco company, says: "The smuggling problem is due solely to the very high level of tobacco taxes in Canada. The rationale for these taxes is that they discourage smoking while generating substantial government revenues. However, there is no evidence that the policy has had a measurable effect on the incidence of smoking by Canadians." That's the sort of stuff they say here; that's the sort of stuff they're saying in the United States. It's 180 degrees different from what these same companies were saying in their same annual reports over the last 10 years, and I can read extracts from them. But of course they were acknowledging the obvious in the past, which is that price does affect consumption, and taxes are having the biggest single impact on what's going on.

What happened, in my view, looking at the documents they've submitted to governments over time, is that they used to complain to governments, "If you put up price, consumption will fall and that will be awful because we might have to lay off workers etc." They pushed that idea: "You want to help this industry. Don't kill the goose that lays the golden eggs. Your revenue might even fall because consumption will fall so much." The government could do its own analysis of the economics, and it found the relationship between price and demand was such that—we're dealing with an inelastic curve here—governments can do much better from selling fewer cigarettes, exactly as is indicated in the graph, plus the government wants to reduce tobacco use. The government's saying that in Canada 40,000 people a year are dying from this stuff. From a pure humanitarian standpoint, we want to deal with that. We have a lot of kids getting addicted to it; that's when people get addicted to tobacco, as kids. This is something that will reduce that problem.

Even from a pure economic standpoint, as long as people stay alive and stay healthy, one way or the other, we get to tax them; once they die, we don't tax them any more. It's in everybody's best interests to have a healthy population that lives longer. Somebody dying of a coronary at age 45 gives us a heck of a lot less revenue to finance our country or our province than somebody who is kind enough to stick around for a lot longer and earn more money and get taxed.

Those are some of the things. The same sort of

statements that are being said here are being said there. Those are the statements we're hearing, the sort of statements we're having to respond to. At some points it's right to the area of humour when you compare what the tobacco industry is saying now, that taxes don't affect consumption, and what they said until very recently, when they realized they had to completely revamp their strategy. I don't think accuracy is a hallmark of this industry.

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The previous head of the tobacco manufacturers' council, Bill Neville, in front of a House of Commons committee in 1991 said: "Let me make it clear. There's no use kidding anyone on this. It works. That is, taxes do impact on consumption." Well, they did then, but there's absolutely no evidence now, according to the tobacco industry. That's the sort of nonsense, the sort of thing. When they're saying that tobacco consumption has not fallen any more rapidly in Canada than in the United States, their own figures show that's not true. But unless there's somebody there to point out their figures, it's the usual problem: As you know as decision-makers, you can only make as good a decision as the information available to you allows.

Mr Mahood: David, if I may, in response to this, as a follow-up to the committee, I will send over a copy of material on the industry's sales deception. Part of the backup for this is a report entitled *The False Dilemma*. You may have seen this. This report was the subject of a lead editorial in the *Globe and Mail* the day after it was released in Ottawa.

The *False Dilemma* was written and endorsed by seven of the leading economists in the country, including Rick Harris and Pierre Fortin, two giants in economics in Canada. In *The False Dilemma*, it makes it very clear that price has had a phenomenal impact on tobacco consumption in Canada. It refers to a study by Burns Fry. I think it attributes in excess of 90% of the fall in consumption in Canada to price through increased taxes. Other economists have come in and suggested it's perhaps not that high but it is very, very high. Without question it is the single most important factor in the decline in consumption in Canada.

I must tell you, when you compare our performance in Canada in public health, in other words, when you see our falls in tobacco consumption in Canada, twice the rate of the decline in the United States, and when the single most important factor in that is tobacco taxation, there's no question that that translates into reductions in the tens of thousands of deaths in Canada in the future as a result of our tax policy. You simply cannot abandon that.

What really shocks me is that I have yet to hear a single politician in this country get up and say in front of cameras or in a Legislature or in the House of Commons: "Look, what the tobacco industry is asking us to do is to roll back taxes to US levels. That would probably increase the number of smokers in the market by a million. That will probably lead to over 300,000 unnecessary deaths in the future. It will decrease our revenues, probably in the neighbourhood of \$5 billion, in this

country. That simply is a non-option."

What does this industry expect of the Canadian people in terms of that kind of deception? That's not what we want for Canadians. There have to be other solutions. We don't see politicians, Health ministers or anyone else going forward and telling people what the costs are on this.

Here in Ontario there are several things on the agenda that would have a huge favourable impact on this problem. The provincial health community is asking this province to implement plain packs in its tobacco legislation. Plain packs would be the single most important health initiative they could take, other than price, and plain packs have been endorsed by every editorial of every major newspaper in this province. There's strong support for it, even among smokers, in the public opinion polls. Plain packs would help differentiate the smuggled package from the domestically sold duty-paid package. We don't see the signs of that.

Licensing of retailers, again for the Ontario tobacco act: If you lost your licence for selling a smuggled package, you can bet your bottom dollar they're not going to risk that, so you cut off that whole source of smuggled tobacco. Licensing of retailers is absolutely critical.

David mentioned provincial health warnings. Under the federal Tobacco Products Control Act, one of the clauses in that legislation almost invites the province to put better warnings on, to rise above the minimal warning standards set by the federal warning system. When you put provincial health warnings on a cigarette package, it will be very easy to differentiate. Even though that invitation is there, we still haven't seen anybody get up and say, "We're going to put provincial health warnings on these packages and we're going to bring forward that Ontario tobacco act."

So there are major things the province can do to impact on this, one of which is to tell people what the options are.

Mr Jamison: That's an interesting presentation. The statements that you made I believe are debatable in some areas. I should preface my comments by indicating to you that I represent the number one tobacco-growing riding in all of Ontario, probably in all of Canada, and I'd have to make a sad statement.

After meeting with Garfield and a number of your representatives a while back, my suggestion was that it wouldn't hurt from time to time on this issue—it's very divisive as far as smokers versus non-smokers versus communities and so forth. There was a strong indication at the beginning of your presentation that you relate tobacco directly to cocaine, and by virtue of that, I would take it that you would consider making tobacco illegal, period, if you had your way.

The problem we always seem to miss on the two ends of this is that there is a certain economy in southwestern Ontario that seems to never be mentioned in that light. There's a certain group of people, farm families, who make their living from growing a legal product called tobacco: not illegal, legal. The impact of taxation on

those communities has never been weighed in properly, although there's an assessment of stakeholders being done right now to that end.

The health issue I don't think anyone can argue. I believe there's a real health issue there. This government has chosen to focus on youth and education.

I believe your figures are based on legal sales of tobacco. The illegal sales of tobacco are, quite frankly, not properly measurable at this point in time. We all have an idea about what those are, and I believe they may reflect somewhat on the figures presented here today.

The other point I'd like to make is that when we talk about European communities and the types of things that have happened, the taxation levels are much more in line in those European communities than they are between Canada and the United States. Those taxation levels, being much more similar in their amounts, make the problem much easier to deal with.

No one can deny that the difference in price between Canada and the US has fuelled an underground economy in this area that simply sees revenues on the government's part fall dramatically from the levels that they would be. At the same time, the reduction in levels of usage of the product are questionable because they are not actually able to be accounted for at this point.

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If in fact you were to have your suggestions go ahead full force—we're talking about fairness around the board—what would happen and what responsibility would federal and provincial governments have in declaring it an illegal product, and what then would stop smokers in this province from smoking smuggled Marlboros? That's the kind of question I have surrounding your report. But the one thing that really concerns me—and I talked to you directly in my office about this—is that if in fact the product were made illegal or if that were the end result or the end push in this area—and I don't consider it to be humorous. You can sit there and smile; I have people who depend on this in my own riding, who depend on growing that product, and I don't think it's that funny when they go out of business.

Mr Sweanor: We're not laughing about those people, I assure you.

Mr Jamison: Okay. But I say to you, what kind of difference in tax doesn't promote smuggling? Possibly the effort on the issue should be centred, at this point, south of the border, because that is the real problem. When are we going to start talking about the communities that are affected? I've never heard that from you.

Mr Mahood: Mr Jamison, through the Chair, you'll recall that in your office I mentioned to you that my home town is in the centre of tobacco country. You will recall that we did give you an answer, and perhaps David's response was because he felt your questions were a bit provocative. The reason I say that is because we explained to you in your office that making the product illegal is not the end of any health organization in this country. It is not anybody's policy; it's no one's desire. You cannot make a product illegal. Clearly it would make a lot of sense to make it illegal when you have 40,000

deaths a year, but if you can't do that, if that's impractical, if it's on nobody's agenda, then what you're doing is setting up a straw man. It's very provocative, and perhaps we can—I will try not to be—

Mr Jamison: Sorry, but I'm referring to your description at the beginning of your presentation, and from that I take it that you compare that with cocaine and that any government would—

Mr Mahood: The comparison is that cocaine kills less than 200 people in this country every year and it's considered to be a very serious problem when it's brought into this country. It's a law enforcement problem. In terms of damage to health, tobacco swamps—dwarfs—the problem of illicit drugs. So when you make a comparison, the comparison is in the law enforcement end of the comparison, and in terms of law enforcement, when we know everything about the system of smuggling involving tobacco—where, when, why and how—and we still claim we can't do it, that's an absurdity.

It's an absurdity, frankly, to suggest that somehow or other, when we've got 13,000 deaths a year in this province due to this industry's products, we should protect 1,000 tobacco farms in Ontario for the purposes of allowing the promotion of the epidemic to continue. If we really believe that, then let's sell more tobacco, let's promote it through our government programs.

Mr Jamison: You've accused me of being provocative; you're being provocative.

The Chair: Order. I'm sorry; I'm going to have to interject here. The purpose of our committee hearings is the underground economy and not the health issues of tobacco smoking. I have let it go on a little longer than I should have, and I regret that. Mr Sutherland.

Mr Mahood: But there are good answers, Mr Chairman, on the underground economy, and we'll restrict—

Mr Sutherland: My question is twofold. I think one of the reasons your group is here today is to justify why we have higher taxes on tobacco. People understand some of the health arguments, but at some point I think everyone's agreed there's a saturation point as to how much the price of tobacco is going to discourage people from smoking. I think there are merits in that. I think most of the people who have quit have done that because of the price, and now you're into hard-core smokers who quite frankly are going to be willing to pay whatever.

We have a smuggling problem. You've talked about the comparison of real inflation. People's purchasing power, because they've been unemployed or whatever, has declined due to this recession. Tobacco taxes haven't increased in the last two years, but we have a very serious smuggling problem. It's not just the cigarettes, as we're hearing evidence, though. Those networks for the cigarettes are creating other networks for other types of products, including illegal products.

I guess in a nutshell what we're looking at is, how do you say to that average smoking person out there who may have seen his wages go down or what have you, who is a smoker, and to everyone out there—how do you, say, find that balance? Yes, there are health costs, but we know lots of people are injured or maimed or

killed on our highways too every year, not maybe to the same degree, but a large number of people are injured every year on our highways as well. How do we justify those tax rates at that level and how do we reinforce people's faith in the system to stop being involved in an underground economy, particularly in the cigarette area?

Mr Sweanor: If I can deal with some of those points, in terms of a tax saturation point, all the econometric evidence that's available worldwide would indicate that we're nowhere near the tax level that, if we were in Ireland, we'd have to worry about it, for instance. What we're looking at here is the whole issue of affordability.

Mr Sutherland: But we're not in Ireland.

Mr Sweanor: That's right, but in terms of saturation, would you get more people to quit? Ireland is a good example of taxes that are quite similar to our own, and per capita income is much lower than what you'd experience. It must be less than half of what you'd find in Ontario. It's still been an effective measure for the government of Ireland.

When we're not in Ireland, from a health standpoint alone there would be no reason to say you shouldn't have higher taxes. What you're looking at is the question of differences across the border. To pick up on your comments and what Mr Jamison is talking about, what do you do when you've got a big difference? That's our big problem. Were our border with New Zealand or any of the northern European countries, we wouldn't have a problem. Our border happens to be with governments that have the lowest tax levels by far of any major industrialized country.

One of the lessons is from Europe. Why is there a similarity in tax levels? The difference between the UK and some of the southern European countries had been as great as what we're experiencing now. What did the UK do? The UK, through its government, not through health organizations, put together information on the role of taxes in terms of health and in terms of revenue, had a symposium and brought in members of these other communities. The government was the source of that information.

I'm very proud of the work that we've done and that our organization has done. We don't have nearly the credibility that, say, the government of Ontario would have in giving information to these jurisdictions. If you invite in representatives—and we've heard from every single border state in the United States, naturally all the ones bordering on Ontario—they're interested. Many of them are increasing their taxes. They need more information. Can the Ontario government do what the UK did that lowers that tax gap?

With Michigan, again, one of the proposals there would be an ad valorem tax, where the tax would be equivalent to 66% of the wholesale price, which includes federal tax. It would be pegged to currently be 75 cents a pack, which is 50 cents higher than what it is today. If Clinton comes through with this 75-cent increase, that automatically increases the state tax by an additional 50 cents.

Mr Sutherland: So your suggestion is to wait for the

American states to increase theirs.

Mr Sweanor: No. Maybe I'm not making my point. Help them. They're looking for the information. When the Americans are looking for things to do to reform their health care and they come asking Canadians, I think it's nice and neighbourly of us to help out. When they're looking for information on tobacco taxes and they're asking for information, I think it would be nice and neighbourly to help out. We simply cannot keep up with the demand for information or the questions from the United States, but we're not that big an organization. We don't have the resources. Governments do.

The UK has shown what you can do. It's no coincidence that France—France and the UK used to have very different tax rates—has seen very significant increases in tobacco taxes in the last year. I don't think that was independent of the action that the neighbouring jurisdiction was taking.

I think the experience we've had is very important for those jurisdictions, but I think the key point we have to look at, in terms of what we can do right here in our own backyard, I think you make a very valid point to say there are some people who are getting hit really hard. They may be hard-core smokers. There's evidence that some people, because of physiology, get addicted. It's very hard to break that addiction. What are we doing for them? That gets back to the consistency.

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The government has justified these taxes by saying that this is by far and away our leading cause of ill health and premature death. It kills 10 times as many people as are killed on our streets and in car accidents. That's why we're taxing it, and you turn to those people and you say: "What sort of health information is the government giving you? What sort of help are they giving you to quit smoking? What sort of consistent message are they giving you? What are they doing to keep your kids out of that market?"

I think those are some of the other measures we can take that affect that underground economy. If people understand the nature of what we're dealing with, there's an awful lot we can do right here.

Mr Phillips: I appreciate the presentation. I think firstly that the tobacco issue is kind of the metaphor for the underground economy. I happen to think it's a very small part of the underground economy, but as I say, it's become the metaphor and whenever we discuss the underground economy people hardly get beyond tobacco. We had a witness here the other day who said that in his judgement the biggest loss of revenue in the underground economy is personal income tax, and I believe that.

The reason for saying all this is that this study is trying focus on an issue of the underground economy. I appreciate that there are a lot of other issues around tobacco that are very valid, and that's a very important debate, but I'm trying to be realistic with how much we can achieve.

I think there are a couple of givens in this tobacco exercise. The US price for the foreseeable future will be significantly lower than the Ontario price. I personally hope Clinton does what he says he's going to do, but I

think we should deal with that.

Secondly, personally, the thought of visualizing Ontario prices on tobacco going down is unrealistic, but that's my own judgement. I'm looking to you for advice on how we deal with the big issue in tobacco, which I think is the product coming back into Canada or coming into Canada. I can't remember whether in your presentation you talked about the export tax or not. Maybe you did and I missed it.

I'd appreciate your comment on that, your comment on distinguishing the packaging. I think you said to make the Canadian package distinctive and I'd like your comment on doing the reverse and that is making the export package distinctive.

Thirdly, I'd like your comment on, if we do all that, does all that simply mean that the US-manufactured product would replace the Canadian-manufactured product that comes and goes? What I'm asking for is help on dealing with something that I think we can handle. There's a big debate that we've had today about smoking, whether it should be outlawed and all those things. I can't personally visualize us ending up dealing with that, with this committee having its much broader and different mandate. Perhaps you could help me on those three specific questions.

Mr Mahood: Those are excellent questions and David will deal with them.

Mr Sweanor: In terms of the export tax, I think all indications are that it was working. It was killed prematurely after eight weeks. The idea was that the vast majority of all the tobacco smuggled into Canada originates from here. Canadian tobacco is different from American tobacco and people are very brand loyal. In fact, one of the reports from the tobacco industry this year came out with the figure that 95%-plus of all the tobacco smuggled into Canada originated from them.

We saw the export tax as being a short-term solution in that it buys us time, because what you do is you slow down the ability of the industry to simply play the back and forth across the border game. I was very surprised that our tobacco companies would do that because they do want to play the role of legitimate industries. They don't want to be seen as publicly trying to thwart government tax and health objectives. But they were involved in that and shipping vast quantities to the US side of the border.

The role of the export tax was to get away from that tax-exempt status for anything that's shipped out of the country, because virtually all our exports at that time were being consumed by Canadians, either Canadians vacationing in the United States or Canadians once the stuff was smuggled back in, and the vast majority of it was apparently being smuggled back in. It puts up the price at which it goes south of the border, which puts up the price to the smugglers, which reduces their profitability, which interferes with smuggling because they're in it to make money.

The reason we saw it as a short-term solution is that we believe the tobacco companies would very well look at setting up facilities in the United States to manufacture

the product. They do that at their risk, because governments can do a lot of other things to make life very difficult for the tobacco manufacturers. But if we saw that as a legitimate risk, that the tobacco industry would risk their future viability in this country by doing something that provocative. Then an export tax for a period of, say, six months would buy time for the government to implement other measures; it reduces the problem.

In terms of the marking of the product, do you mark the legal or the illegal? The agreement that our previous federal government made with the tobacco industry was that they would mark the product as being shipped out of Canada so that when it came back in you'd be able to see the little thing saying, "Not for sale in Canada." There are two problems with that. The first is that if you look at the packages, the little marking is so innocuous that people don't see it. The second is that every other country we're aware of anywhere in the world that tries to deal with the problem recognizes that by definition you have control over the packaging of the legal product; you don't have control over the packaging of the illegal.

If you have something like a tax stamp that said, "Ontario tax paid," you can have that in watermarked paper that the tobacco companies have to buy from the government to affix to the package at the time of manufacture. By definition, you've got every legal product covered. Anything that doesn't have that is easy to discern. If you try to mark the illegal product, say, "Everything you're shipping out of Canada, we want something on it," you're just giving them the other incentive to produce in their facilities in the United States.

When we look at the European countries, they're not saying, "We think this might become illegal." They're saying, "This is legal," because that's the part of the market you have control over if you want to distinguish between the two. That's the same role that health warnings would play in distinguishing between legal and illegal. Mark the one that you know you have control over.

On the question of whether the product would end up being replaced by a US product, if we could eliminate the smuggling of the cigarettes produced by the Canadian companies that are shipped to the US, that smugglers bring right back into the country, we would indeed see an increase in the smuggling of other products the same as if we were to say that we know the source of 95% of some other type of illegal activity, whether it's 95% of a particular drug being smuggled into the country or who is responsible for 95% of the protection rackets going on in a particular city. We would know that if you eliminate that 95%, chances are that the 5% is going to grow. How rapidly will it grow from 5% to 100%? How high will it go? Will it become 30% of our current problem? Will it become 40%? Will it take five years? Will it take more? Those are the questions.

I think what we can do is eliminate much of the problem we have now, which again buys us time while these other things are happening, because I think you're right: For the foreseeable future, if we talk about the next few months, US prices are still going to be substantially

lower than ours. If Clinton's program comes through, it's a question of how soon. How much time do we need? Are we talking about a year or about two years? If we look at it strategically, there are a lot of things that we can do that help us prevent the problem from growing or reduce the problem while the long-term solution, that equalization of taxes, takes place.

Those are the sorts of things we would be looking at doing, and that's why it's important to look at that export situation.

Other countries have taken novel approaches. Italy, I believe, has said to tobacco companies, "If we find more than a certain portion of your product coming into the country illegally, we'll ban you from selling it legally for a while," recognizing that the vast majority of their sales still come from legal products. It's a way of playing hardball with the industry.

But the markings on the product, the "tax paid" markings, the health messages, the consistent message going to the public about why these taxes are in place in the action to see US taxes go up, all of those things make good strategic sense about dealing with the problem without taking the one solution the tobacco manufacturers offer, which I agree with you is absurd. We can't at this point say, "We will invite a major public health catastrophe and give up a billion dollars a year in revenue." We don't need the public health problem, and we do need the revenue.

Mr Mahood: Mr Phillips, if I can just add to that, the available evidence is that the 5% David referred to would not grow all that quickly. First of all, Canadians do not like American tobacco and consequently the affinity isn't there for that product. The second thing is that with the Tobacco Products Control Act the industry has found it very difficult to promote new brand launches or in fact new brands. The American brands are not that well known in Canada and consequently that segment of the market is not going to grow that quickly.

Thirdly, if you're effective in your process of stopping smuggling, and these combination of measures can do that, one of the things we found out was that when the American companies had to play by Canadian rules in their marketing and distribution, two of the three American companies withdrew from the legal market. They, for example, did not want to see a package of Camel cigarettes sold in Canada with those great big Canadian health warnings which are planned. They didn't want to have someone hold those packages up in a congressional committee in the United States, make the comparison between how Canadians are warned and how Americans are warned, and have people say, "Aren't American kids worth as much as Canadian kids?" So they withdrew.

What I'm suggesting is that there are a number of factors on the scene which will prevent that 5% growing at a very rapid rate. There is no question, when the product is coming in from the United States there's a bigger incentive for Canadians to get real tobacco control measures out and into the public domain, because we don't need that bleed of money going into the United States.

For a number of reasons, the tobacco industry, if

governments act responsibly and if health ministers and treasurers get forward and tell the public, speak publicly about what the options are, I think major things can be done to deal with this problem without caving in to the tobacco industry.

You have to remember the New Brunswick experience. They lowered tobacco taxes in New Brunswick and it did not have the effect of stopping smuggling at all. You'd have to lower them to such an extent that in fact you'd punish the province severely with respect to revenues and that's something the province can't afford.

What we have to do is either learn to play the game effectively with the industry—in other words, we have to learn to bring the good public policy forward—or we're going to continue to get creamed in the press. But rolling tobacco taxes back simply is a non-starter, as David said; it's a non-option and it would just have very undesirable effects.

The Chair: Thank you. The clerk was very successful in making sure there was no loud machinery outside the committee room until noon and you can see that at noon exactly they started. However, Ms Haslam said she has a 13-word question she would like to ask you.

Mrs Haslam: I have a little bit of comment beforehand. I can understand the concern of my colleague. If you were here discussing the smuggling of pork, I would be as upset as he may be because pork is a very important industry in my own riding.

However, given what you've said about New Brunswick, and given what the ministry has said, it also means that if Ontario were to reduce its tobacco tax to zero, or something approximating zero, it may well be that smuggling cigarettes would still remain profitable.

My question is: If Clinton raises the taxes on the American cigarette side, if we bring in better packaging to show the legal entity, given those two issues, do you feel that would address the smuggling problem we have in the province? Briefly, because I'm the only one who's going to be left here listening if everybody leaves.

Mr Mahood: Very briefly, and then David will give you the better answer. The fact is that when the export tax was introduced, the exports in this country, which were largely the product to be smuggled back, dropped like a stone. Ross Howard did the big exposé in the *Globe and Mail* and showed how it dropped just like a stone. What we're saying is that when the Clinton increase goes in, if that increase went in in Michigan, there's no question that would have as big an impact, or bigger, than the export tax. So some of those things are going to happen.

Mr Sweanor: It's the combination of the things. Certainly Clinton's tax increase all by itself would have a dramatic impact, because what we're looking at for the profitability of smuggling isn't the absolute price difference between two jurisdictions; it's the ability to buy in one jurisdiction, cover all the costs of marketing it and sell it for a profit.

Mrs Haslam: Yes, and that's my question. Given Clinton raising it, given the States raising it, given additional health warnings on packages in legislation that

would be proposed here, given those three or four factors, would we see, in your estimation, a reduction in the smuggling of the product?

Mr Sweanor: In my view, if you did those things plus enforcement mechanisms in terms of taking the problem—

Mrs Haslam: Licensing; I understand that too, yes.

Mr Sweanor: With licensing, the significant penalties for the big-time smugglers, I believe we would see an end to smuggling as a problem as we know it.

Mrs Haslam: An end to the smuggling of this particular product as we know it.

Mr Sweanor: That's right.

The Chair: Mr Mahood and Mr Sweanor, thank you very much for presenting before the committee this morning.

Mr Mahood: Thank you. If anyone wants copies of *The False Dilemma*, I'd be more than pleased to give copies.

The Chair: Thank you very much. This committee stands adjourned until 3:30 this afternoon.

The committee recessed from 1205 to 1535.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair: The standing committee on finance and economics will come to order. This afternoon our first presenters are Stephen Kaiser and Phil McColeman, representing the Ontario Home Builders' Association. Please come forward. Make yourselves comfortable. Welcome to the committee. When you're ready, please proceed with your presentation. Also, could you identify yourselves for the committee members and the purposes of Hansard.

Mr Stephen Kaiser: Mr Chairman, members of the committee, good afternoon and thank you for inviting us here to talk about the extent and impact of the underground economy. I understand that we have 15 minutes to give our presentation and then half an hour for questions.

My name is Stephen Kaiser. I am a home builder in the Niagara region and president of the Ontario Home Builders' Association. With me today is Phil McColeman. Phil is a renovation contractor from Brantford and the immediate past president of the OHBA.

As a preface to my remarks, I should point out that our industry is in many respects uniquely qualified to talk about underground economies. The most obvious qualification is the fact that the underground operators are competing with us. We know how pervasive the black market has become. In a couple of minutes, Phil will have more to say about this. We also know about the cost savings that are available in the underground economy.

The other thing that qualifies us is that we have to deal on a firsthand basis with the conditions that create and encourage underground activity.

We have felt the full brunt of this economic depression. We have seen construction activity cut in half. We have seen bankruptcies and layoffs. We have been left with houses after customers have walked away from deposits. We have been left with invoices after renovation

customers have refused to pay for work we have done.

All this has happened and continues happening today while the government raises taxes, while it piles on more and more regulation and while it pursues senseless policies.

Let's look at taxes. Tax hikes do two things: They increase the cost of your product and they reduce the buying power of your customer. Increasing taxes in the presence of an underground economy is like throwing gasoline on a fire.

The same thing goes for regulation. Last summer, changes to the building code added thousands of dollars to the cost of a house. These thousands were added when the buyers who remain are predominantly in the lower end of the market.

These tax hikes and additional regulations are bad enough, but they have been combined with something else that compounds the damage. They go along with misguided policies and apparent disregard for the health of our industry. It is this combination that really invites an exodus into the underground.

Think of what our industry has had to contend with in just over the past three years. Tougher rent control legislation has killed construction of new rental stock and renovation of existing stock. An aggressive non-profit housing program has funnelled obscene subsidies into product that competes with market housing. In each of these budgets, the government has vastly overstated the health of our industry.

The underground economy is about economic necessity. We have a saying in the industry that every time a plant lays off a thousand workers, there are a thousand new renovators and home builders. That is on the supply side of the equation. On the demand side, people have had their buying power reduced, so they are looking for bargains.

I should point out that these savings can be substantial. Paying cash so that a worker does not have to claim income lowers cost. Evading all the UIC, CPP, employer health tax and so on gets costs even lower. What is more, evading all or part of the GST and PST brings the cost even lower still. Some renovators, for example, find the black market undercuts them by 40% to 50%.

The underground economy goes beyond economic necessity. It also has important social and political dimensions. In some cases, giving the laid-off person an odd job is a way to give a helping hand, and yet in other cases buying or selling on the black market is a political statement about taxes, regulation and government policies.

Most political commentators will tell you that people vote with their wallets. Well, this is an election that does not need a ballot box. Now I'll turn it over to Phil, who will tell you how the vote is running.

Mr Phil McColeman: Good afternoon. I'd first like to take you through the four figures we passed out in the package, and there are these graph documents.

Figure 1 shows the estimated size of the underground in both new home construction and residential renovation; 17% on the new home side, 41% in the renovation side.

I should explain that these numbers come from a survey of our members of the Ontario Home Builders' Association, some 3,800-plus companies. This survey was conducted last summer. The particular figures, 17% black market share in new home construction and 41% black market share in renovations, are averages of estimates made by individual builders, renovators and general contractors.

Figure 2 shows how likely it is that a purchaser will ask a builder for a black market deal. The most common deal is to buy a house that the builder has built for "himself." Someone who builds their own house does not have to pay Ontario new home warranty fees, and when they sell the house, there is no GST.

As you can see, there are only a small number of builders who have not been asked, at one time or another, to do a black market deal; for nearly 30%, it is a common occurrence.

Figure 3 shows the same thing for renovation jobs. Almost 60% of renovation contractors say this is a common occurrence.

Figure 4 turns things around a bit. It shows how often a subtrade asks a builder or renovation contractor to pay him or her cash or barter. Nearly 40% say this happens often or on almost every job.

I want to close with a couple of comments about what can and should be done about the underground economy. Stephen suggested that the underground economy is both a political statement and a comment on economic conditions. I want to echo that view. I spend a lot of time going into people's homes and getting to know them. I often say that at the kitchen table is where I do my business, because that's where I mostly talk to individuals. That's how you sell a renovation project. I can tell you that the mood has changed since I started my company some 14 years ago. People talk about the underground economy in a candid and matter-of-fact way today. If they see it as wrong, it's a legal wrong and not a moral wrong, and that is a very important distinction.

You cannot regulate the underground economy out of existence. The answer is not better enforcement of tax laws or stiffer penalties. It's like holding on to sand: The harder you squeeze, the faster it runs out between your fingers.

Part of the solution lies in informing consumers about the risks that go with supposed bargains. When I'm selling a job, I point them out to customers who are eyeing a black market bargain. Ontario Home Builders' has worked with MCCR over the years to develop a series of consumer guides that talk about these risks and describe how to avoid them, and there are a series of renovation how-tos and not-tos that we've put out in consultation with and with the help of MCCR. But the bigger part of the solution will come from relieving the frustration that has come with excessive taxes and regulations.

When you're trying to solve a problem like this, it's tempting to look for simple causes. Simple causes have simple solutions. Maybe it was the GST or the depression or both that broke the camel's back and started the

movement towards the underground, but what started the movement is no longer important. The important thing now is what sustains it. People have found an underground economy with fewer rules and fewer taxes, and they will stay there in that underground economy until the rules and the taxes of the aboveboard economy are more to their liking.

I want to thank you for your attention to my comments, and I think Stephen and I will be pleased to answer any questions.

The Chair: Thank you very much. We have 30 minutes within which to field questions, divided 10 minutes per caucus. We'll start with Mr Kwinter.

Mr Kwinter: Gentlemen, thank you for your presentation. I found it very interesting.

One of the concerns that I have, and you talk about it at the end of your presentation, is the fact that it may have been the GST, it may have been the depression, but something broke the camel's back and started the movement towards the underground.

To use another cliché, I think the genie is out of the bottle, and I don't think you're going to get it back in again. Regardless of what happens, we are always going to have income tax, we are always going to have some form of sales tax and we're always going to have some form, whether they change the name or hide it or do whatever, of value added tax. It's really just a matter of quantity: Is it going to be lower? Is it going to be higher? Is it going to be hidden? Is it going to be open? But it's going to be there.

I'm just wondering what your feeling is, because you say that if these things are addressed and if the regulations are addressed, then maybe you could get this underground economy under control. I have some serious concerns, once people get the feel that if they're dealing with tradesmen, if they're dealing with people where they can save whatever the amount is, where they can save the sales tax or whatever form of GST is developed and if they can save some of these other things, about how we get that back to the point where we say: "Okay, I'm not interested in saving that money. I'm prepared to pay the taxes, prepared to pay all of these things, and you can't tempt me at all with any kind of savings." How do you deal with that?

Mr Kaiser: It's a tough question, Mr Kwinter. I guess we'd like to throw that one back to you. But I think my answer would be that there's been a mood swing in the consumer. That's what's happened. For our industry, when we sit down at the table with a consumer, the word "cash" usually comes up within the first five minutes of conversation. I think this committee would be shocked at the type of people the word "cash" comes up with; I mean, people you wouldn't normally associate that kind of dealing with.

Mr Gary Carr (Oakville South): Politicians?

Mr Kaiser: People from all walks of life, let's say.

The mood is out there that the consumers feel they're overtaxed, they're overburdened, and that what they're doing is not morally wrong to them. I think there has to be a mood shift back in the other direction, be it a

joining again of the general public and government to getting the direction where there is the best bang for the tax dollar being spent, where the taxpayer sees that shift out there, that the government is really trying to close the door and give them the best deal for their dollar. I think the public would join in, in concert with the government, towards this effort.

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Mr Kwinter: If I could just expand on it, let me give you an example. I had someone come into my constituency office a few weeks ago, and they were absolutely distraught. They work in the broader public service. Their salary has been frozen. They now have to deal with the social contract, where in fact their salary's going to be reduced.

When they came to see me, and they wanted me to do something about it, what they wanted me to do was to put in a price freeze on everything, because they said: "How could it be that my income is frozen and going to be reduced but everything else is going up? So not only am I not making as much money as I used to make, but I'm falling further and further behind, because even though my particular income is frozen, all of the goods and services and all of my costs keep going up."

I said to them that governments weren't in a position—I guess they could be. Politically, it's unsaleable to suddenly freeze everything and say no one can charge anything more than anything else. But that, by its very nature, is tailor-made for these people to say: "Somehow or other, I have to try and deal with this situation. Otherwise, we're going to lose everything."

The only way they can do it is to sort of plug into the underground economy to see if they can make some savings. It's going to keep them hopefully at least even and maybe get a little bit of benefit. That is a real, major difficulty, and how do you address that?

Mr McColeman: I think Stephen has a good grasp of the fact that it is this state of mind. Let me give you a couple of examples from the private side of industry, where I've had to lay off six people over the last three years who've lost their jobs because there isn't enough renovation work out there and who've actually had to bring the rest of the staff in and say, "You have to take \$1 an hour less if we're still going to compete in this market."

Excuse me, but I don't feel tremendously that—I know there's been sacrifice on the public sector side, but in comparison to what's happened on the private sector side, there is no comparison. These people have to live with fear of whether we're going to have enough work next week.

So I understand where that person's coming from, and it's just like, I have just completed a job for two public servants who are school teachers. The reality is that the job we did for them was less costly than it was three years ago and the reality is that my products I'm buying today, for example, the windows I put into that addition to their house, cost me 20% less today than they did three years ago.

The fact is, there has to be this education, I think, of

the public, of the consumer. If you're trying to make them deal aboveboard and not go to the underground, I think you have to make them believe that what it is you're trying to enforce is just and fair and reasonable. I think when you can make that sale to them that it is, that when I go and I'm being compared—

Another example, a bathroom we just completed: My price was \$20,000, my competitor's price was \$7,000. It was a cash deal. They wanted my company to do it and they asked me to explain why. I had to go in and make basically an educational seminar out of the sales function, because that's what was required to show them where the costs were and what my tax burden was, and, you know, "If we're all going to live in a fine province, we have to stay aboveboard here."

All I'm suggesting to you is this: I think people have to see what they're being asked to pay is fair and reasonable and is just. I think when they see that, they're willing to pay it. What has happened is that perhaps the pendulum has swung the other way, that they're not perceiving it that way today, so it's not a moral wrong to do a black market deal for anybody.

How you get it back, I don't know whether that helps in answering that question, but I think maybe one of the things government can do is put its own house in order, in order that people can perceive what it is government's asking them to pay to be just what I've said: just, fair and reasonable.

Mr Kwinter: Just for clarification, I wasn't trying to defend this person's particular point of view. I was just reporting what they said to me.

Mr McColeman: I understand. I run into it every day.

Mr Kwinter: We also have a situation where of course people who are working are the people who can participate in the underground economy. If you're not working, you can't participate anyway.

But you just make a point that I think is really telling. You're going to have to be a pretty good salesman to convince someone that the difference between \$7,000 and \$20,000 is worth paying.

Mr McColeman: Right.

Mr Kwinter: That is going to take some salesmanship on your part, believe me.

Mr McColeman: Absolutely.

Mr Kwinter: One last question I'd like to ask you, and I'm just curious to know from a practical sense. On page 3 of your submission, you talk about the builder who builds a house for himself and as a result doesn't have to pay the Ontario New Home Warranty fee and also doesn't have to get involved with GST. They can't classify every house they build as their own house; there surely has got to be a time limit as to the number of houses you can build for yourself to be eligible for these particular benefits.

Mr Kaiser: You're correct, Mr Kwinter. A builder or a person who wants to call themselves a builder cannot continually build a house and flip a house, say, "I lived in it for a day," and sell it. But what happens is that you

do have people who live in a house for a very short time and then build another one and build another one after that and sell those houses. The resale market is not subject to the GST, as the new home market is.

Mr McColeman: If I can just give you another example: a builder who would go to you as a home owner and say: "Mr Kwinter, you take out the building permit. You're building this house for yourself on paper and I'm going to be your builder."

Mr Carr: Thank you very much for your presentation. I'm interested in your reaction, what you think will happen if the federal and provincial governments get together and decide to bury it.

I think a lot of people, if you give them a price of \$100, including all the taxes, if they think you're getting it, would be more willing to pay it than if the government was getting it. But if we con the people and hide it and bury it, do you think psychologically it'll make it easier for people and do you think we'll get around this problem because they won't know, they'll just get quoted a price?

Essentially, I'm saying that the provinces and the federal government will be sitting down about what to do with the GST. I don't think anybody in this room believes it's going to be eliminated from paying a tax. What I do believe is that they're going to hide it from the public. Do you think that will have a psychological impact that will benefit consumers, that they will then feel good about it and end up paying it?

Mr McColeman: In my mind, that will drive them further to the underground when they understand. There's a low confidence level right now by the general public, as you know, in government's behaviour. All that will do is push it further underground. Taxes are one of the issues; another issue is regulation. A lot of people in our industry are very strong technically, but the business side of their business happens when they get home after swinging the hammer all day. There's all the government red tape and regulations that they have to deal with—submitting UI, submitting ever-increasing workers' compensation premiums etc—that are also avoided when you deal on the black market. It's one issue, but I would think your comment would lead people even further towards the black market.

Mr Carr: Isn't it true, though, that—because this was discussed when the GST was brought in—the government of the time chose not to bury it? One of the reasons was that businesses didn't want it buried because they thought that instead of the government taking the flak over it, people would just think you're taking 7% extra.

I'm amazed at the number of people who never even knew, even politicians, that there was a manufacturers' sales tax. When the GST was brought in, the reason it was left open was so that businesses could not hide it and the goat of all this would be the government. They would see very clearly and they would be up front.

What you seem to be saying to me is that if the federal and provincial governments get together, as they will, over the GST, you would be pushing for them not to have it buried and hidden. We've got the CFIB next, with

Mr Bulloch. What do you think the reaction will be from other businesses? Do they like to have it up front, where you can blame the government and not yourselves?

The second question on that point, just along with that, is on page 3, when you say that in renovations 60% of people opted for cash. Isn't it true that people in the renovation business—obviously not yourself—to beat their competitor, will in fact not wait to be asked; they will ask people, "If you pay cash, this is the price"?

We're blaming the people for this, saying they're asking you if it's cash. You're not going to sit here and tell me that contractors don't offer cash to help get the sale and beat their competitor. How much of it is the public and how much is it business saying: "The competitor's out there. I'll go first. I'll ask them whether they want to pay cash and beat them to the punch"? How much is that happening? I would argue with you, and correct me if I'm wrong, that's happening in more than 60% of the cases from the renovation people's standpoint.

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Mr McColeman: Why don't I take the renovation question and then you can go back to the GST question?

A good point about who asks who. It used to be that contractors asked consumers. Now consumers ask contractors. That was the distinction we made earlier, more so. Contractors still do. You're right. However, the more prevalent thing now is sitting down to discuss a project and having the consumer suggest it.

That is happening, and I'll give you an example. This morning I was working with my roofing subcontractor. He's been in business probably 12 years or so, a very good operating company. He tells me that most of his residential roofing today, 90% of it, is done in black market cash deals. That's people going out and asking him to do a roof, saying, "If we pay you cash, what's the price?" That would be probably contracts between \$3,000 and \$5,000.

We did some calculations, and they weren't part of our presentation, but we can conservatively estimate that the tax loss on renovation, and probably the new home construction, is in excess of \$1 billion, conservatively, taxes lost because of the underground.

Mr Carr: That's a billion with a B, right?

Mr McColeman: With a B. I've got how we did those calculations here if you're interested in hearing how we did that, but the reality is, that's what I've noticed, it didn't used to be so prevalent. It's really quite easy to handle a contractor who asks a customer, because then the customer automatically becomes suspicious as to whether this person is even going to get their job done. But when it starts happening in the opposite direction is where perhaps we've really passed a certain threshold.

Mr Kaiser: Your question on the GST: As we're talking today, we're not talking specifically about the GST but the whole gamut combined of regulation taxation, but you've touched on the GST.

Mr Carr: You know that's what they're thinking of doing, combining them.

Mr Kaiser: It's not a simple tax to handle for small businesses. As Phil has stated, our industry is to a large

extent made up of the fellow who works during the day and does his books at night. I can tell you that we had a GST auditor—and my business is a small business—into our business a couple of months ago, and he wasn't sure of some of the questions. He was going to go away on course and perhaps we'll get the answers when he comes back. So this handling of the GST has caused a whole other phase of overhead for the small business person in this province who, to a large extent, is a big part of our industry.

Mr Carr: I think that noise you heard was the people in Finance falling over when you gave the billion-dollar figure. I can just see Floyd Laughren's mouth watering when he thinks of a billion dollars coming in, so just for his sake, maybe you could pass on that calculation. He'll probably stay up late trying to figure out ways to capture some of that. If you could pass it to the members, I think it would be helpful.

My last question is, on page 4, you also say you've been working with Consumer and Commercial Relations to develop a series of consumer guides. I suspect all you've done with that is just highlighted the fact that other people are doing it and probably encouraged more people to go underground by trying to tell people about what was happening.

Obviously those things are a drop in the bucket and meaningless, and you don't think we should be doing anything along the lines of trying to appeal to people's moral values to pay the tax, because we say so in a brochure. Surely, you don't think that's going to do it?

Mr McColeman: Can I respond to that? Because I was kind of one of the key players in initiating it through the renovation industry to get these brochures into home owners' hands. What they deal with, more so, are the risks of doing the black market deal. In other words, if government can do anything, I think what it can do is perhaps educate consumers to the risks when you pay cash. The fact that there is no workers' compensation coverage if someone falls off a ladder, and some of the legal risks they take by doing a cash deal.

What we did with MCCR is we developed four brochures: how to hire a renovation contractor, a standard renovation contract, the dos and don'ts and I think the last one dealt specifically with the black market; it spoke directly to that, what the inherent risks are of dealing in the black market. Those have been extremely helpful for the professional side of the renovation industry.

There is a strong professional group of renovation contractors in the province, albeit they are few in number compared to the black market operators, frankly. But those have been very useful, and maybe the one thing government can do is just do that, educate the public as to the risks they're running, because most people do not understand, and when they do get it explained to them, as I do over and over again, it tends to sway them; not all the time, but it helps.

Mr Carr: One last question just on that same point. At the bottom of page 4, you say that people will stay in the underground economy until the rules and taxes of the aboveboard economy are more to their liking. It obviously isn't now.

In terms of suggestions, would you be suggesting a different rate, for example, of GST for your commodity? If you were to lower the rate, do you think you could get some of it back—people, if they had to pay only 2% or something, would pay it? How do you suggest the government handle it, then, if it's not to their liking now? I don't know too many people who like to pay any tax to any government, at any level, of any political stripe. So, on your last comment, how do we deal with that as legislators, when you say people don't want to pay taxes not to their liking?

Mr Kaiser: I don't think we have a magic figure to peg and say, "It should be reduced to this." But I think, as a whole, what we're asking government to look at is taxation, to look at regulation; cut where you can. I think the consumer, as I mentioned earlier, wants to see the responsibility on the spending side, and then they will, we hope, join in on the effort to make the province grow.

The Acting Chair (Mr Mike Cooper): Mr White and then Ms Haslam.

Mr Drummond White (Durham Centre): Thank you, Phil and Stephen. I was very impressed with your presentation. I have just a few questions. The issue you mentioned about a builder building a home supposedly for his own use and then selling it quickly, that would avoid the GST, would it?

Mr Kaiser: Yes.

Mr White: We heard earlier from Mr Kwinter that there will inevitably be a value added tax. A value added tax is the type of tax the GST is. So despite election promises, it sounds like we're in for a long-term GST. What was your reaction to that? I understood you saying that a lot of the onset of this underground economy was with the depression and with the GST.

Mr McColeman: I think we stated that those were two factors in the equation. I think regulation has a lot to do with it as well. I sense, with all due respect, that your comment is politically motivated in the sense of trying to peg it on one thing or the other thing. I'm not so sure that using our time most beneficially here should be pegging one thing or the other.

We're trying to say to you that whatever it is that's pegging people to do black market deals, it's happening now that it's not thought to be wrong in their minds, at least in our experience in the construction industry. If we are going to have GST or a value added tax in the future, so be it, but let's make sure, whatever we do, we try to reverse the mindset of consumers today. If it's reducing the GST for residential renovations and construction, as it is in new home buying—there's a threshold level of reducing the GST on the lower-end houses, where it's paid at a lesser rate—if there are schemes like that, that are going to bring confidence back into residential construction, then we're very receptive to that. We'd be very happy to talk to anyone who'd like to embark on that. So maybe there are ways that the government can enhance and encourage us to get our people back to work.

But the reality is that it isn't one tax and it isn't one regulation; it's a whole burden that a small business has

to look at, to handle, along with getting the work done. So a small business has a hard time with that.

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Mr White: Let's follow that through, Phil. You're suggesting that we should look at some means by which people would be encouraged to be paying their taxes on service, renovations particularly. One thing might be a lower level of value added tax or provincial sales tax, whatever, for renovations. One thing that was done fairly recently was the use of RRSPs for first-time home owners. Would you see some temporary measure like that being used to encourage that tremendous job-intensive industry such as your own?

Mr McColeman: First of all, I don't believe our industry has ever supported government intervention into the industry on a long-term basis. We have supported the 5% down program and the RRSP contributions to stimulate our industry at a time when it's tremendously needed, because we're half the size today, which means half our people are out of work. So they're only short-term measures, in our minds, and we'd rather not have the government stimulate us in that fashion, or intervene to stimulate. What we would rather see is that you'd address the longer-term problem. The black market is here, the black market is operating and it's flourishing and growing. How can we work together with government to try to diminish that and reverse that trend? That's what I think we're here today to discuss.

Mr White: Indeed.

Mrs Haslam: I think Mr Carr was being facetious when he said that Floyd would be stymied and salivating at \$1 billion less in revenues. I think he already knows the \$1 billion less in revenues is there. Otherwise, we wouldn't be looking at some of the problems that we have.

I'd like to follow up on some of your mood shifts, because that's exactly where I feel that you've hit it on the nose, that there has been a general shift in not the morals but the overall perceptions of people out there of what's right and what's wrong.

I also like your idea about education, and I'd like to follow through. Should the government be educating the public on the value they get for their tax dollar—the services, the programs, where the tax dollars go out into the ministries and those types of services—or are you suggesting only in your own area looking at the value and the benefit of a legal contractor versus an illegal contractor?

Mr Kaiser: I think the opportunity is wide open for the government to explore all those areas as far as the consumer goes and show them the value for their dollar and where those dollars go, but specifically today we are asking for a stronger effort to further the efforts of MCCR and our association in regard to educating the consumer to dealing with a recognized reputable contractor on an aboveboard basis.

Mrs Haslam: I have a couple of questions of clarification too. In one of the research articles I've been looking at, a Mr Spiro:

"Spiro's conclusion notes the fact that the GST was

introduced in the midst of a recession. People already suffering economic hardship are described as viewing this as an increased temptation to turn to tax evasion"—which is part but not all of the problem we're facing in an underground economy—"in order to offset the recession's impact."

When we're coming out of the recession, when things are a little better, do you feel this will be a reverse situation, or has the pattern been set and are the networks already in place and should we be looking very seriously at that particular issue not going away, the issue of underground economy?

Mr Kaiser: I compare it to a conversation I had yesterday with a gentleman who has a farm north of Toronto, about an hour's drive from here. My understanding in conversation with him is that in the farming community, that's a way of life up there: the barter system, the underground economy. I think that way of life, that system, is infiltrating into other areas and into other industries.

Mrs Haslam: Can I interrupt you? Do you consider the barter system an underground economy?

Mr McColeman: Well, it avoids taxes.

Mr Kaiser: Certainly.

Mrs Haslam: Because we were discussing this the other day. Mr Kwinter, was it you, or was it you, Mr Johnson, who was mentioning the barter system and that it was a system that was in place and not unusual in rural areas and not totally illegal and whether that was actually part of the overall underground economy? Two pies for shovelling the walk; it's a barter system. Is that part of the underground economy?

Mr Kaiser: If it evades the taxation that's set up in the province, I think it is a wrong. If it's strictly, "I'll do this for cost for you if you do this for cost for me," and those items are taxed as they would be taxed through the system, no, it's not a wrong. But I think what's happening is, "I'll do this for cash and you do this for cash," or, "I'll give you these items for those items."

Mrs Haslam: I have another clarification. The Canadian Home Builders' Association did an analysis on the effect of the GST on black market renovations. Part of their brief was on the experience of renovators in particular. I'm afraid I didn't know this and I'd like some clarification and comments on it. Many renovation contractors are particularly unhappy with the \$30,000 small supplier rule for the GST. This allows renovators whose total work in a year is less than \$30,000 not to charge GST to their customers.

My question is, how would you know if you're not going to make \$30,000 in a year and whether you charge GST or not on renovations? Can I have a clarification on that? I just found that extremely hard, because it says that many renovation contractors are moonlighting workers. This is an unfair advantage to small moonlighting companies that typically can hide at least some of their renovation jobs and thereby legally avoid having to collect or pay the GST.

Mr McColeman: I have a comment from a couple of angles, but for one, I can easily plan this year to only sell

\$30,000 of the work and show that this is what I sold in my company. So it can be almost premeditatedly planned to not show more in terms of what I have to show on my books as \$30,000 of the business. I think that may be where some GST avoidance or compliance comes in or compliance to the rules, if you will. It's kind of a perverse way to comply, but that's the way to do it.

The other thing is that there legitimately are a lot of people in the industry who are one-person operators who have one vehicle and who wouldn't do a whole lot more business than that if they're doing \$100 and \$200 jobs in a year. The renovation industry is filled with people from all different—it's an easy-entry business. You just need a set of tools and a pickup truck really and you're in business. So there are all kinds of people out there who do perform under that threshold level in reality, and it's hard to compete with those people on the smaller-scale projects.

The Chair: Unfortunately, we're out of time. I want to thank Mr Kaiser and Mr McColeman for presenting before the committee this afternoon.

Mr Kaiser: Just one point, if I may: We inserted in the packages that were passed around to the committee members a resolution that's titled Resolution 8. That came out of a package of resolutions that came from the conference of the Ontario Home Builders' Association early in October. It's self-explanatory, but I must say that was passed without anticipation of coming here today.

The Chair: Thank you.

Mr Kaiser: Thank you for the opportunity to come here.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair: Our next presenters before the committee this afternoon are Mr John Bulloch, Ms Catherine Swift and Ms Judith Andrew representing the Canadian Federation of Independent Business. If you would please find yourself forward here and make yourselves comfortable, at that time, when you're ready, please make your presentation. I might add that you are familiar individuals. However, if you could please identify yourselves for the purposes of Hansard and the committee members, it would be appreciated.

Ms Judith Andrew: Good afternoon. We're very pleased to be here on behalf of the Canadian Federation of Independent Business. My name is Judith Andrew. I'm the director of provincial policy. I'm joined on my right by John Bulloch, the president of the Canadian Federation of Independent Business, and Catherine Swift, our senior vice-president. Catherine will lead off this afternoon.

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Ms Catherine Swift: Our brief has been distributed to you, I believe. We've also included our submission to the Fair Tax Commission because, needless to say, taxes are a part of the difficulty here and we thought that instead of reiterating that, we would just submit what we had already submitted on the tax issue.

I'd just like to very quickly highlight what we do lay out in our brief, and then John would like to make some

comments as well as someone who has studied this issue for over 20 years now, not just in Canada but around the world, and so brings a somewhat unique perspective.

As most people have noted with this issue, we've always had an underground economy in Canada, as just about all countries do. The current sort of sudden focus on the issue has only come about because we have all observed a dramatic growth over the past few years, although in terms of an international context, Canada is really sort of just catching up, we believe, in terms of the proportion of our overall economic activity that is taking place underground; we've only just caught up with a number of other countries around the world.

We have observed different causes for the growth of the underground sector in developed countries versus less-developed countries. In less-developed countries, it tends to be more factors such as the lack of efficient financial and policy infrastructure. Many people, for example, both as small business people and consumers, find it's simply a lot easier to operate in an underground manner. Often multiple permits and so on are required, bribing of bureaucrats etc. As well, there are other issues; for example, for a small business looking at attempting to finance its operations, the lack of a good banking system which we see in many countries and the lack of things like legally enforceable property rights, so that someone who has an asset against which to borrow for a business ends up driving a lot of people into small, self-employed, undeclared types of activity.

In developed countries, the causes are somewhat different. Typically, they are as a result of overtaxation and overregulation. Other things that come into effect, of course, are things such as the stage of the business cycle. Recessions tend to drive more activity underground; improved economic circumstances usually tend to bring some of it at least back into the formal sector. Finally, political factors are also very important. Typically, even a highly taxed or overregulated population that has confidence in its political leadership is a lot less likely to have a growing proportion of undeclared activity than people who believe their tax dollars are being wasted. This is, I think, why we see some fairly highly taxed countries still not having a massive underground problem and some countries that are not really highly taxed having a major underground problem. It's not simply a tax issue.

In Canada we have seen quite a bit of dramatic growth recently, and it does seem that the coincidence of the GST and the recession, which did happen around the same time—that these were catalysts, if not lone causes. Throughout the 1980s our membership certainly saw a tax frenzy by all levels of government, and of course we had reasonable economic growth for a few years, so people grudgingly absorbed the taxes as the recession hit. All those taxes that had been laid on during that period became unsustainable. We see now, I believe, where an awful lot of the revenue problems experienced by governments are really indicative of the fact that we've reached the point of diminishing returns to taxation, where we increase taxes and actually end up with less revenue overall as a result. So more taxes cannot be viewed as the answer.

Our membership also was very close to one of the first visible manifestations of exploding underground activity in cross-border shopping, where again we had a lot of factors combined: recession, GST, a very high dollar and very high interest rates. Although that's abated a bit, we still see our level of cross-border activity as very much higher than it was in the mid-1980s and as still a problem, although it seems to have plateaued.

Technology is also somewhat of a factor as a facilitator. We find an awful lot of businesses that might have previously existed, say, on a main street, had two or three employees, paid their local property taxes, all those payroll taxes and so on, and now find, for tax-driven reasons and facilitated by technology, they can move into their home, subcontract work out when required, operate effectively as a self-employed person and not pay all those taxes. Again, a lot of that is perfectly formal. Some of it is also happening in an informal, underground manner.

Something that just came up in the latter part of the last presentation is the growth of barter networks. Again, technically speaking, tax is supposed to be paid on barter transactions, so I guess you only consider it part of the underground economy if it is not being paid. But certainly the tax situation has been a main driving force behind the growth of barter networks. I guess I find it ironic, looking back at my Economics 100, that barter was viewed as very archaic before we had currency systems and means of exchange that were more sophisticated. Now we are going back to the caveman days, driven very much by tax policy and regulatory policy, so it's perverse in that respect.

I think, too, a very important factor is Canadian taxpayers' dissatisfaction with governments generally and their institutions generally. Canadians, too, historically have been more law-abiding and more compliant in their taxpaying than have many other nations. So here we are seeing a really quite law-abiding nation historically being put over the edge by a number of policies, combined with the fact that they don't believe their tax dollars are being spent intelligently. We believe this is perhaps the major driving force, combined with the other issues that we've heard about from our members such as MP and MPP pensions and the kinds of reductions we've seen in private sector employment and compensation while taxes continue to rise and the public sector is barely touched by cutbacks to date right across the board compared to what the private sector has endured and continues to endure. As well, during this period we see deficits continuing to rise, and of course this is perceived by most people, rightly, as gross mismanagement of their tax dollars.

What we've seen in Ontario alone has been a range of taxes, increasing regulation and legislation which has certainly convinced the small business population that the provincial government is very out of touch with reality and does not deserve respect.

We see, for example, at a time of major structural change and cyclical recession and fiscal crisis the government continuing to increase taxes and introducing intrusive and costly legislation, things such as labour relations reform and employment equity, for a couple of recent

examples; things such as the \$50 corporate registration fee, which maybe isn't a lot of money, but which in combination with our climate of overall increasing taxes, regulation and aggravation for small business people takes on much greater importance than it would in a different climate. So all of these things are incremental factors that are leading businesses to effectively thumb their noses at governments, and consumers as well. One means of doing so, of course, is via the underground economy.

In terms of size of the underground economy, we've certainly seen a lot of estimates. Of course, we'll never see a definitive number because of the nature of the beast, but our data certain concur with a lot of estimates that have been put out by people like François Vaillancourt, who came out with something last week at the Canadian Tax Foundation conference, and others, that somewhere between 12% and 15% of Canada's GDP is probably a reasonable current estimate. Things such as currency and circulation and so on, the amount of large bills in circulation, all of these things also give us a pretty good picture that at least we do see dramatic increases in the underground economy.

Of course, there are a lot of problems arising from underground economic expansion. From a government perspective, naturally the fixation is always on so-called revenue shortfalls, which we often view as expenditure overrides, but I guess it's a matter of perspective.

There was a quote in a recent *Economist* article, and I noticed other parts of it quoted by the finance department, but the part that I guess we'd be most in agreement with is the statement that "as a rule, the higher the taxation and the more onerous the regulations in the formal economy, the bigger the informal economy is likely to be."

There are a number of problems in a longer-term perspective. One, of course, is that we ultimately will seriously endanger the kinds of core programs that Canadians do want to see provided via their tax dollars: things like education, health care and some social services.

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Also, what is of concern when you look around the world to countries that maybe 15 years ago were where we are now in terms of underground activity is that none of the governments have ever responded by decreasing the burden of taxation and regulation, and as a result, underground activity continues to expand.

What we also see is that the typical reaction of governments is to step up costly enforcement. What that has done in every other country it has been tried in has been to drive more activity underground. You just get into the vicious cycle of increasing taxation, increasing enforcement and an increasing underground economy.

Other problems of course are that when you're trying to make policy—anything from trying to project your revenues as a government to trying to guess if people are really unemployed or if they're working in an underground economy, how accurate things like our unemployment rate are and so on—if you're trying to base policy

on wrong numbers, you're not very likely to get very good policy out of it. So that's a difficulty as well.

From the small business perspective, we do see treatment of the underground economy moving out of the denial stage. Remember the introduction of the GST? Notably, we had briefs several years ago that can be referenced that said this would increase underground activity. "Oh, no, no, no," was what we heard from the federal tax collectors at the time, and unfortunately our predictions have turned out to be regrettably very true.

We find, however, now that we're out of the denial stage, that this is a problem. We're in the finger-pointing and scapegoat-seeking stage where various levels of government would all like to blame somebody else when really everyone has a hand in this and hopefully everyone can try to be part of the solution to it.

As we see, there are three main causes of the problem in Canada: high and increasing taxes, a high level of regulation and a growing dissatisfaction on the part of all taxpayers with the ways in which governments are spending tax dollars. These are of course all interrelated factors since they tend to move in concert. We feel that reversing these trends is really the only way we're going to get any kind of grip on underground economic growth. As we say, international experience shows there is no enforcement solution. You will spend more money to increasingly collect less money over time, and this has happened to every government around the world. Canada will be no exception.

The only enduring solution we see will be an overall reduction in the size of government leading to at least a levelling, and ultimately a reduction, in the level of taxation and regulatory burden on small and medium-sized firms, and consumers as well. This in turn will assist in getting back a little more confidence in governments, their policies and the way they spend tax dollars.

Mr John Bulloch: I'm just going to perhaps supplement in a minor way Catherine's comments. For the 20 years that I've been involved in an organization called the International Small Business Congress, I have been listening to papers and research studies and debates on the informal economy, or what we call in North America the underground economy. It is a multilayered issue, but there are threads that you can follow when you look at the phenomenon in developing countries that are relevant to more sophisticated economies.

The growth of the underground economy is a signal that something is fundamentally wrong in your society, that your democracy isn't working properly. It can be seen as the result of discrimination in your society, unfairness, lack of respect for democratic institutions and authority generally. The policy implications are almost overwhelming.

Certainly the most frightening to governments, with their present deficit problems, is that they possibly do not have a revenue solution. Certainly they don't have a collection solution. I talked to one government official from Italy who says it costs them \$2 to collect \$1 in the informal economy.

Looking at this phenomenon in the Third World

countries and eastern bloc countries, it's also quite interesting. We think we have bureaucracies in North America; you should see the bureaucracies in countries like India and some of these South American countries. The roadblocks to operating legitimate businesses in terms of getting proper authorities, permits and licences are almost insurmountable. It's much cheaper to pay a bribe, much quicker to pay a bribe. So bribes in the Third World and the underground economy are the developed economy's equivalent of taxes. You have to bribe government officials for everything.

Also, you find quite widespread the lack of a middle class, people who own property. Although they may give people property, the ruling class has not given them legally enforceable property rights, so they can't use their property as collateral for a loan. Therefore, they never get beyond the self-employment stage and they never become employers with any kind of capacity to borrow and to grow. In Third World countries you have like 150,000 people entering the labour force every single day and these people just can't find a place in the economy.

You see these kinds of things when you look at the struggle in these countries. On the surface they seem democratic—"Hey, we now elect our leaders, we have democracies"—yet people have no respect for the democratic process because all the other institutions that should go with a democracy, such as the enforcement of the rule of law, don't seem to work when bureaucracies take over and when governments operate in a way that's not transparent. Most of these countries have elections, but the government passes hundreds of thousands of rules and regulations without the public ever knowing anything about them. So it's democracy on the surface.

You start to shift your thinking into the more developed countries and you ask yourself, is there anything we can learn from what's been going on in these less-developed countries, is there any kind of common thread, is there any kind of common sickness? Certainly, in the developed countries the growth of the underground economy is very much associated with the growth of the tax burden and the lack of legitimacy of governments that never mention at election time that they're going to raise taxes. Taxes are things you raise when you get a majority and you've somehow snookered people into thinking you aren't going to raise taxes. So the issue of taxation and legitimacy of the system is quite central.

I would say the GST and the way the government plugged the Senate, used a constitutional device to plug the Senate, and all the publicity around that created an incredible anger. The process is what snapped people, as well as the higher tax level on personal services.

You also get a different phenomenon in terms of areas of prosperity and areas of economic weakness. In areas where there aren't many opportunities, people are working in the underground economy to supplement unemployment insurance or welfare, really just to survive. What we're doing as a society in training these people to develop new skills, what we're doing in this country is raising the quality of our underground economy. We now have really qualified tradespeople who formerly didn't have skills who are now operating in the underground

economy and have greatly improved their capacity to earn in the underground economy as a result of our training in terms of becoming licensed welders or mechanics and so on and so forth.

At the last world conference I was at there was quite a debate about the growth of the underground economy in the developed countries and a suggestion, which requires more research, that globalism is throwing more people outside of the economy. The 50-year-old who is out of work without an education is almost toast in our system and really has no way to make a living except to try to eke out some form of self-employment.

Complexity, regulation, taxation, legitimacy of the system, as Catherine said, I think are very important. I was intrigued because this year's world conference was in Switzerland, and it considers itself to have probably the smallest underground economy in Europe. Authority is highly decentralized in the cantons and people are very into the decisions their governments make. They wouldn't introduce a major new tax without a referendum, so the tax system has more legitimacy. They have only a 6.5% national sales tax, a retail sales tax, that's buried in the price, whereas in other European countries the average is closer to about 18%.

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There's something else that wasn't mentioned in Catherine's brief that I'm hesitant to say is really the informal economy, but there's another thing that's going on as countries try to come to grips with what's happening. Every government in Canada, federal and provincial, has got a revenue problem—every single government. In criss-crossing Canada, visiting premiers, every one of them is panicking and every single month they seem to be rejigging their numbers. There's something pretty scary going on.

I don't think governments understand the economy today. I don't think they have models that really tell them clearly what's going on and I think the underground economy is a big part of it. I don't think it's all of it. I think part of it also is the growing global nature of the economy. Most trade today is transfers within corporate networks, and the capacity to evade taxation through intercorporate transfers around the world is also a problem for revenues. The underground economy is another problem for revenues and low inflation is also affecting revenues. So you've got three things that are happening all at the same time, and I don't think any government in Canada right now can forecast squat. They just don't know what they're doing. Department of Finance forecasts are so bad that they themselves admit, "I don't think we really understand the economy today."

You all have revenue problems, and the underground economy is a significant part of it, and also the global economy and low inflation. Those three factors are making traditional econometric models obsolete.

The Chair: Thank you very much for your presentation. We have about a little over 20 minutes, I guess, for questions. We'll start with Mr Carr.

Mr Carr: Thank you very much for your presentation and for your knowledge. To all of you, you always come

in and help us out a great deal, and we appreciate it. I guess I'll throw this out to anybody. Maybe you'll want to answer it, John.

As you know, we're going to have probably a year now of looking at what to do. The provincial governments are going to have to come up with a decision. I believe one of the reasons the PST and the GST were never combined was for political reasons. An NDP government, for example, wouldn't combine it and then have its federal counterparts criticize the GST. I think we're in a new era with a new government. I think the PST and the GST could be combined. I know you've been a big believer in that—administration costs and so on. I want you to comment on what it would mean to your members if the PST and the GST were combined.

The second part of that question is the same thing I asked the gentlemen who were here before you. One of the problems we've got is that when there's a tax that people see, they'll do anything to avoid it. If they said to your members that any extra money would go to the bottom line, more people would be willing to do it. As soon as it goes to government, people put their backs up. The tire tax: That was what a lot of people said, that they'd do anything. If you said you'd wash the car for 50 bucks, people would say go ahead. But if you said it was going to the government, no way.

What are your thoughts if the PST and GST are combined, and having it hidden so that people don't know? First of all, do you agree that they should be combined and then, if so, how does the government do it? Would you see more confidence in consumers if in fact it was just hidden from them?

Mr Bulloch: I heard your question when you asked the gentlemen before me and I think you've got the question a little simplified. The problem is that moves to improve the present sales tax regime have two or three different possible options. We have to examine these options with the province and determine which package of winners or losers we want to accept.

If you took the route towards one GST so that you essentially scrapped nine provincial retail sales tax systems and the provinces adapted a value added base, if you ever could get everybody on the same base—that would be a question—if theoretically you got all provinces on the same base, you would dramatically reduce the compliance cost to the private sector but would probably increase the size of the underground economy. We have to have a debate on these priorities. Can the underground economy get any worse than it is now?

Certainly, if you combine the federal and provincial systems, you'll have a higher tax on personal services, and it's the personal services that go underground because you can't paper-trail personal services. All through Europe the personal service sector has been underground for almost 20 years because they introduced VATs in the early 1970s, and the average VAT rate is 18%. So you can see the incredible temptation to move that part of the economy underground, and it's just gone. We went to our members with this back in 1986, and the debate has gone from there. We now have to have a fresh debate and we have to have a fresh discussion with the

provinces about the various options.

You could have a Japanese-type federal tax. It could be a lot simpler. It could apply to everything, and whether it's hidden or not hidden is a separate debate. That would be something that would bring the rate down from 7% to 5%. You'd reduce the tax on services by spreading it over food and other goods and you'd probably reduce the underground economy, but you wouldn't make the major improvement in appliance costs. It would be somewhat simpler.

This is why our own recommendation to the Liberal government in Ottawa was not to jump in and start saying what it's going to do. Their policy was our advice. The moment you start saying, "We want to do this," half the provinces would disagree with you and you'd be dead in the water. We really have to do the same thing. We have to get down to the ways to make this thing work and determine if the priority in terms of the underground economy is economic or is it compliance, which is a massive multibillion-dollar problem. We have the most inefficient sales tax regime that exists in the world and we are spending 20 cents to give the government a dollar. So compliance costs may be more serious than the underground economy issue. That's the kind of debate we have to get into.

We've got to know what the packages are before we can go out and build a political constituency within small business, because the last time we did it and said, "Let's harmonize the tax into one"—and we had a constituency for it—we harmonized in Quebec and we got a worse compliance mess than we ever had before; and the Devine government in Saskatchewan tried to use it as a tax grab. "Harmonization" is kind of a dirty word. We have to start afresh, with a new government talking with the provinces on two or three options.

Certainly you get less underground economy when it's hidden; there's no question. That's why European countries hide it.

Mr Carr: What would your members' feelings be just in terms of the big question of whether to hide it or not?

Mr Bulloch: They would sooner have it visible. That's why we have to go back into the debate and put all the pros and cons and these various options together and not deal with it in isolation but have an intelligent debate on what's best for the country.

Mr Carr: I think what you just hit on is the problem, because there are so many different agendas between the provincial and the federal governments. The problems you just outlined are the reasons I don't think we're ever going to get any agreement. I don't think we would if we had political parties of the same stripes, let alone the problem we've got now. Do you think we will get it?

Mr Bulloch: The difference now, of course, is that the federal government has got some levers. The federal government is coming in at a time when the provinces have to renegotiate their transfer systems. The equalization system comes up next March and they've agreed to look at EPF and CAP at the same time. If they don't touch that, the system will unwind over the rest of the decade. The federal government has got tremendous

leverage to get a federal-provincial agreement on the new transfer system, and it should be tied into sales tax reform, because another option is to say to the provinces, "Okay, you take over commodity taxes and we'll just reduce transfers to each province proportionately." That's another option; that's the scrap option.

I think the leverage is there, and for provinces that are absolutely bankrupt, and most of them are up against the wall right across Canada, the tremendous saving to kill the whole cost of collecting retail sales tax for the federal government—you don't need all those people. They've got the system in place. You can get rid of all the bureaucrats collecting retail sales tax in this country.

Mr Carr: One last question too; I don't know what the time is. In terms of the taxation, we hear continually from this government, "Don't worry, our taxes are no worse in the province of Ontario than in Saskatchewan and Manitoba." The problem is that we're dealing in a global economy and one of the problems we've got with the border is people can go across easily. It doesn't help to compare to somebody else and say we're just as bad.

What is your feeling, in terms of an Ontario standpoint, of our tax structure now? Are we just equal to the other provinces? Are we worse? From your standpoint, having members right across the province, how would you rate Ontario in terms of taxation with the other provinces?

Mr Bulloch: The biggest problem is your tax system relative to the United States. You have terrible problems with cross-border shopping in Alberta. With no sales tax in Alberta, that's a nightmare for BC and Saskatchewan, the leakage of the tax system in those two provinces, with people buying in Alberta. I don't think it's an Ontario-Quebec problem or an Ontario-Manitoba problem; it's an Ontario-US problem, and the cross-border shopping is a reflection of these very significant differentials in gas tax and tax on booze and this kind of stuff.

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Ms Swift: We see Ontario as still the worst-taxed jurisdiction in the country. Quebec and Ontario were always sort of vying for number one status and the employer health tax seemed to put Ontario over the top. Of course, recently both Quebec and Ontario did similar things in their budgets with personal income tax and so on, so they stayed in the same relative state, but what John says is very true.

The other thing that's worrisome is that right now we're holding our own vis-à-vis the US because of the low value of the dollar, but if we're complacent and think this is okay, the next time that we have some problems with our currency, some problems with our interest rates—which hopefully won't happen, but we're very vulnerable right now with the kind of debt we're carrying as a province and as a country—then that's going to have an impact on the value of our dollar, our interest rates and everything else.

Our competitiveness problems have abated, but the fact they've abated has nothing to do with any improvement in the tax system; it has everything to do with our currency value vis-à-vis the US. So right now we're

okay, but we remain very vulnerable to any changes in the future.

The Chair: We're going to go now to Mr White, and I'll remind you that you have about seven or eight minutes and your colleague Ms Haslam would like to ask a question.

Mr White: Thank you very much for your excellent presentation. I'm interested in a couple of things. The solutions aren't all that obvious or clear. You've mentioned, of course, the European experience where some 18% VAT has driven probably a much more substantive part of their economy underground, and one can well understand that. Certainly, in many of the countries in the Mediterranean area that's been a tradition, and to some degree in the UK as well.

You mentioned, Catherine, if people felt that government spending was appropriate, if there was a downsizing of expenditures, if there was a feeling of value for money, that would increase people's willingness to pay their taxes. I'm not so sure, simply because very frequently people come to me and say, "I'm a school teacher and I'm going to be affected by the social contract, and not only that but you're increasing my taxes, and how terrible this is," not putting two and two together and saying that their taxes are also paying their salaries.

People just the other day were talking to me about how we should be spending more for hospitals and government should not be spending money, government should be saving money, but, "Our hospital over here, that should be exempt from that," as if somehow that hospital wasn't a significant part of government spending.

I think very often we have a fairly narrow view of what is okay for spending. It's always that there's a fat cat somewhere, we're not quite sure where it is, but it's not our schools or our hospitals or our roads. I'm wondering how you would see that kind of participation.

John, you mentioned the issue of how in Switzerland taxes are put to a referendum at the canton level. How would you increase this kind of democratic process, the democratic involvement, so people would see that they have a participation in those decisions and that they are getting value for their money?

Ms Swift: For starters, most of our small business members certainly would disagree with the fact that there isn't a lot of fat in a number of places. Most Canadians have seen over the past 20 years—notably the last 10—a massive increase in taxes for all kinds of reasons, some of which were unavoidable, maybe demographic and so on, some of which we believe were avoidable in terms of massive increases in taxes and the size of government. They don't see the delivery on the side of services. They don't see their education system improving. They see teachers' pensions at 9% when the average private sector is half that, and they think that's excessive.

We've done studies on public versus private sector wage differentials. There's a significant wage and benefit differential there. That is seen as unfair. There are a lot of factual observations we could make where there's unfairness.

However, there's no one solution here. This is a complex issue and the problems we see that are definitely driving this phenomenon—and it's impossible to attribute, "This is worth 10% and this is 25%" or whatever—are all interrelated. In terms of having more confidence in government, that would have to be coupled with some more sanity in terms of the kind of tax levels and so on. There's no one solution that would in and of itself be successful, but it's interesting how even in some highly taxed jurisdictions, the people seem to still have confidence in their government for whatever reason. Some of it is probably cultural factors as well, when we look at, say, Japan and other countries that are very different societies than we are. So it is a complex issue.

Mr Bulloch: The one theme you find everywhere in the world where you have a large underground economy is a lack of respect for authority and the democratic institutions. If there was more power in the hands of individual elected people and they could vote up or down on a bill without defeating government, there would probably be more respect, more legitimacy of the system. Every government, whether or not it gets in with 37% of the population and gets a majority, seems to raise our taxes. They didn't mention during the election campaign they were going to raise our taxes.

There's a sense that the system doesn't work. Whether it's perceived or whether it's real—discrimination, unfairness, a sense of legitimacy—it doesn't matter; it's the same problem. You have a real problem and you have a political problem in this country. The underground economy is a symptom that something's going wrong with your democracy.

You only get a sense of that when you look at some of the unbelievable numbers from east bloc countries and South America, where half the population is working for unregistered enterprises. The numbers around the world are incredible: Two billion people work in the underground economy in developing countries.

This is a major world issue. Look at the eastern bloc countries. They now have democracy but there are no property rights; there's no respect for authority; the bureaucracy is atrocious. To try to get approval, you wait nine months to try to do anything legitimate. Slip the guy money, you get it done in a day. The respect for law and order and rule of law isn't there.

Everything's a question of degree. Something has happened in Canada and it isn't a matter of whether it's legitimate or, "Hey, we have to pay for hospitals; we have to pay for schools." In some cases we do believe there is unfairness in the system in terms of public sector versus private sector compensation, and that's real numbers. But beyond that, there's a perception that the system is fundamentally discriminatory and unfair and we have to deal with that as a society, because what's happening here is so profound.

I recently talked to Dr Savage, the new Premier of Nova Scotia. He's probably the straightest guy you'll ever find in public life. He's as straight as a die. He now looks like a conniving, dishonest politician because he thought he was going to come into office and not raise taxes. He's sitting there, and as he tried to explain to me,

he's had his revenues downgraded every month for three months when he got into power, and he's got the bond rating agencies giving him a number he has to meet within a certain day or he gets downgraded and he spends another \$80 million on interest charges.

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The nightmare that governments face today is unbelievable. I have great worry as a citizen about this problem. It is massive and it is deeply troubling. The Ontario NDP worries me, because I think Floyd Laughren thinks he can raise taxes again next year. He's told people that he doesn't think we're taxed out.

I'm telling you that if I read what's going on accurately, there isn't a revenue solution left for any government, and the federal and provincial governments right now are looking at a \$9-billion revenue shortfall. I don't think it's all the underground economy, but it's a big piece of it. They all met privately. The federal government and the provinces agreed to cut their deficits from \$61 billion to \$52 billion. They made this agreement, and six months later they're all looking at a \$9-billion revenue shortfall in the upcoming year, and they're right back to the old \$61-billion number. What's happened? Almost all the provinces have been raising taxes again.

Do you know that since Clinton raised his taxes in the States, the spread between Canada and US taxes has increased rather than decreased? We thought, "Clinton, if you just tax their pants off, Willy, you might save our bacon up here." But what's happening up here is that the provinces have raised their taxes higher than what Clinton has raised his taxes down there. Now the spread is actually wider between Canadian and US taxes, something like 27%; it was formerly 25%. So we've got a serious problem and we've got to stop looking at revenue solutions.

The Chair: Mr Phillips, I understand you have to hurry off to the House and I'm going to give you an opportunity.

Mr Phillips: If the NDP caucus wouldn't mind, I wouldn't mind asking a quick question.

The Chair: We'll come back to them in just a minute.

Mr Phillips: Okay. I am scheduled to speak in the Legislature. I thought we'd end at 5.

I want, first off, to thank you for being here and to say I think it was actually your speech that prodded me into prodding us into doing this study. So you have accomplished that much anyway, and I'm pleased that the committee's doing it. I think the committee's gone beyond both denial and finger-pointing; I think the committee is genuinely looking for solutions. If that's any comfort to you, I think at least the people here, as I say, are genuinely at the third stage of the problem.

Ms Andrew: Excuse me. It wasn't clear that the Ministry of Finance had gone beyond the point of denial. In fact, they were downplaying the role of taxation in this problem, and I think that's a major issue for your committee.

Mr Phillips: I think the committee's at least prepared to look at it.

The next thing I'd say is that I think, Mr Bulloch, you've got your finger on what I'm convinced is reality, and that is that as you look at revenue coming in, there's no logical explanation why it's so weak on historical economic indicators. The old 90% of nominal GDP leaves us, I think, about \$4 billion short, and that's probably a fairly conservative estimate. So something profound is happening, and I agree with that. I think it's one we need to look at.

I think you've helped define the size of the problem, but I got the feeling from the chamber this morning that it felt we're almost on the edge of an accelerated growth in the underground economy, that there are a lot of people who have played by the rules to date, but there's a perception that everybody else is benefiting from the underground economy. Have you any sense of whether this is a problem that is just growing at its normal rate as it peaked out, or is there any risk that we're on the edge of some accelerated problem here?

Mr Bulloch: I think it's growing. The thing is quite insidious, and once it gets started, other people are forced into it to survive. The thing is a sickness in your society that gets a life of its own and grows. Our job as citizens is to halt it and reverse it. That's probably what this committee's about and that's why we're here, to try to help in that respect. But it is a very scary phenomenon.

The problem is that you never know whether you're measuring it accurately, but you get a pretty good sense that there has been a dramatic jump since 1989. It's always been a significant problem. Every economy in the world has a certain amount of crime and a certain amount of smuggling and a certain amount of what you call large-scale, organized underground activity. But once it starts to move right across, where probably maybe half to two thirds of your population are engaging in it in some manner—when three to four million people cross the border every day, they're not going over there just to shake hands with their relatives on the other side of the border. They're going there to buy gas and to buy clothes and there's no way you can enforce it at the border.

You have something that probably involves maybe two thirds of all Canadians and it's all small amounts. The idea that you can go out there and catch somebody and really claim a lot of money is not the way it works. The vast majority of people are supplementing income. The underground economy is underpinned by the UI and welfare system. You've got to get into UI reform, welfare reform, tax reform. You've got to get at the legitimacy of your institutions, the way you make legislation, the way you treat the taxpayers. It's a symptom of a massive sickness in your democracy.

Ms Swift: Probably the only short-term improvement that we see, because we're talking about reforming things that can't be done next week; we're talking about change that has to—you're not going to restore confidence in institutions etc in a short period of time. If we had a somewhat healthier economy over the next little while, which we're all hoping we will have, underground economic activity will probably at least plateau, I would suspect. There wouldn't be as much incentive; there wouldn't be, hopefully, as many unemployed people and

so on. I think that would probably plateau it. Mind you, the next time economic activity dips again—we haven't managed to secure business cycles yet, so it undoubtedly will—what you'll see probably again, because this has been the experience elsewhere, is another incremental increase in underground economic activity if you haven't done anything about those other issues.

Hopefully, a bit better economy in the next little while will give us a bit of a reprieve, because I don't think we see that acceleration necessarily. But of course, even if we do get the growth and governments decide, "Let's keep cranking up the taxes and regulation and continue in our past ways," then even somewhat of a recovery won't save us.

Mrs Haslam: Actually, I was glad to hear some of those comments and I'm glad to hear the oral presentation versus the written presentation because in your written presentation you say, "The growth of underground activity has come about as a result of overtaxation and overregulation," and yet you, in your oral presentation, have said it's simply not a taxation issue; it's a complex issue and it's interrelated. I agree with those things.

When you look at some of the other things in the written causes of rapid growth of underground activity in Canada, I'm glad to hear you elaborate on that and say, "Yes, it is due to unemployment." There are families out there with no money that turn to other ways of doing the job. We've had a brief discussion on the barter system. You said that the incremental increase in the underground can be tied to a recession and tied to the economy.

Again, on page 6 of your written one, you said, "As a rule, the higher the taxation and the more onerous the regulations in the formal economy, the bigger the informal one is likely to be." Yet I was glad to hear you state later that that is not always correct, because when you look at the facts and figures that I have, we see Japan—and you're right: Culture does have a great bit to play in it and attitudes do have a large part to play in what's going on in the underground activity.

When you look at the charts, they show Japan, as a tax rate of its GDP, has a 70% tax rating and yet the underground economy is only 5%. But you look at Canada, as a 50% tax rate—it has a 10% rate of GDP underground. Then you look at Italy that has an even higher tax rate than Canada and yet it's at 20% of GDP of the underground economy. I think you're absolutely right: Culture plays a role, attitudes play a role and it's not just on the more formal versus informal.

But I really liked, on page 8, when you seem to come to "attacking the underground economic expansion" was "to treat the disease," and you came up with some suggestions, I've looked at them and it seems to me you're saying government downsizing, cuts in programs so that they are run more efficiently, streamlining regulations for small business and a fairer taxation system, and I agree. I think those are things that we have to look at very carefully.

My questions, then, are around a couple of things. Number one, when you talk about your membership, do you have a knowledge of the percentage of your membership involved in underground economy? As I found in the

previous presenters, everybody knew somebody, but nobody was involved in it. Do you know the percentage of your members involved in an underground economy?
1710

Also, there was an article—I assume, Mr Bulloch, that this was something that you were involved in—from the *Financial Post*, in June 1993. The last comments you had were: “More is at stake than a steady stream of taxes for government. High taxes and a recession have combined to produce organized smuggling networks reminiscent of the Prohibition era.”

So my second question is, do you think these networks are firmly established, or can we combat them in the future? I found it interesting that somebody mentioned the plateau being tied again to a recession, and when we’re coming out of that recession perhaps that plateau will be there. I’m more interested to see whether, the networks having been firmly established, we can actually come down from the plateau—not a plateau; can we get down from that idea of the networks are in place?

The reason I ask that question is because, around tobacco, if Clinton raises the taxes on tobacco, if the bordering states are raising the taxes on their tobacco, which we understand they’re looking at, that lowers the differential between the two. If we look at a better health care system in the States, that also comes into play. If we’re looking at a better way of policing the smuggling, then it no longer becomes profitable for them to bring it in when we’re looking at packaging and other ways. I’m looking at whether in the future we can actually bring down that underground economy.

Mr Bulloch: Let me just answer a couple of your questions and then Catherine can fill in. On your comments about Japan or Switzerland, these are countries that have—

Mrs Haslam: No, not Switzerland. Go ahead. I didn’t mention Switzerland.

Mr Bulloch: Both go through a great deal of effort to develop political consensus. Japan has its own way of doing it and Switzerland has its own way of doing it. It’s very much part of their laws and their culture. So there is a greater consensus in Japan on what’s right and what’s wrong, and almost everybody kind of speaks from the same hymn book, which you don’t get in heterogeneous kinds of cultures like Canada.

Also, the Japanese sales tax rate is 3% and the Swiss rate is 6.5%. The big reason why there’s so much difference in the underground economy in Switzerland compared to, say, Britain or France is the dramatic differences in the rates on VAT, in the 18% area on average. Of course, the value added tax, which puts it on personal services, is where all the leakage is because you really can’t paper-trail personal services and there’s really no enforcement mechanism.

The federal government has not caught up with what it can do on enforcement. I happen to know a fair amount about the computer models that they have available for paper-trailing goods and catching anomalies, coming in and catching them. They do that in Europe and they have people in jail all the time in Europe for VAT evasion.

That machinery has not been put in place yet, but Europe has never been able to really collect any money on the personal services side. That’s why provinces don’t tax personal services, because they know that’s where all the leakage is and they can’t enforce it.

In terms of our own members, our members are mostly people who employ people. Probably more of them are victims, but they really are a mirror of society, and if somebody was doing something illegal, if you asked them in a survey, “Are you breaking the law?” I can just imagine them saying, “Oh yes, I’m breaking the law.” So there’s almost no way you’d ever really know. Small businesses mirror your society in terms of culture, language, age, income—everything. Whatever is happening in society generally is happening in small business, for good and for bad. They’re just a cross-section of your society.

In terms of networks, I think we’re referring to smuggling. If you’re going to be that stupid and have that kind of differential between Canada and the US on excise taxes, you’re going to get massive smuggling of booze and cigarettes. Then it becomes highly organized, and that’s a totally different issue.

I think, as you suggest, some of these spreads will narrow. We’ll bring ours down, the Americans will bring theirs up and we’ll probably eliminate that massive smuggling that’s going on. In most areas of the underground economy our members feel victims. We’ve done our own surveying, and they are being hurt dramatically. They’re losing business dramatically to underground economic activity. So if they get hurt, they have to lay off people.

I can give you an example of a company not far from my cottage that used to have 44 electricians who specialized in home contracting and cottage work. As a result of the GST and the recession, the owner’s back down to himself. All of those 44 people are working with beepers and are self-employed, and of course they do enough for cash that they stay under the \$30,000 threshold, and all 44 of them are now self-employed.

So what you really have is, the underground economy is very much tied to the self-employment phenomenon. In developed countries, it’s the burden of taxes and regulation. Probably in regional and rural areas and Third World countries, it’s just because there’s no economy there and it’s the only way they can survive. They don’t look in developing countries that these people are somehow evil in some way. They just don’t have the economic growth; they don’t have the uplifting of their economy when half their economy is engaged in taking each other’s laundry in and out.

Mrs Haslam: Am I correct in understanding that self-employment—I remember reading this somewhere—is where a lot of the growth will be in the future? That comes back to the question, do you think the networks are firmly established, or can we combat them in the future?

Ms Swift: I think some of them are firmly established. I know I was speaking to someone specifically about the tobacco thing recently. They were fairly knowledgeable about that aspect of things, and their view

was, if the US does increase taxes, and if of course we don't any more, which hopefully we won't, but who knows? But say we don't and they do, they felt that, given the nature of the tobacco problem, it would just turn into an international smuggling situation. So the problem I guess with our shrinking world is that the US of course is still very much number one for us in terms of comparison, but it's not the only one. Anyway, like I say, that's not my area of expertise, but someone else who did know more about it thought that, which was interesting.

Mrs Haslam: We were looking this morning, and actually the Americans are the lowest on the list as far as their cigarettes and their taxes, and that's the problem. As the tobacco lobby said earlier today, if we shared a border with Germany, we wouldn't be in the problem of tobacco in particular as part of our underground economy. Because we are high on the list—not the top, but because we're high on the list—and Americans are on the bottom of the list and we share a common border, then that has exacerbated the smuggling of that particular product. But I'm more interested in the network.

Ms Swift: But we probably also would have been sitting here 15 years ago if we shared a border with Germany, in terms of underground economy.

Mrs Haslam: I'm more interested in the networks and whether we could combat them in the future or whether, once they're set up, they're set up.

Ms Swift: There's going to be an element of that, I think. Unfortunately our looking at the experience of other countries isn't that useful because we have only seen governments rely on enforcement and increasing taxation solutions. We've really never seen anyone scale back so that we can say, gee, did those networks diminish if the true causes were removed from the equation?

I do think the likelihood, barring economic catastrophe, is for a plateauing over the next little while, because we are looking at having some growth. If that continues and if government, I think, does change its ways so that people can have more confidence in institutions and don't see governments as just perpetually increasing taxes but as managing their money better in terms of deficits, debts and so on, then I think there is potential to gradually disband networks.

But it's a major impediment, because you're right. Once they're established, there's going to have to be a period of time before—you don't break it up overnight. So I think again it's a long-term solution and it will involve an improved economy plus a change in government actions to dissolve it over a period of time.

The Chair: On that comment, I'd like to thank Ms Swift, Mr Bulloch and Ms Andrew, representing the Canadian Federation of Independent Business, for making your presentation before the committee today. Fortunately

we didn't have anyone following you so we had an opportunity for some extra questions and we're grateful for that. Thank you very much.

Before the committee members leave, we do have just a little bit of business. Our research officer, Elaine Campbell, would like to respond to the committee on the question Mr Kwinter raised this morning with regard to evasion versus avoidance.

Ms Campbell: Mr Kwinter's question arose after he read the memorandum that was distributed to the members this morning. That summarized two reports on the underground economy. The question arose over the use of a word on page 2 of the summary. That was the summary of the Clayton Research Associates paper that had been done for the Canadian Home Builders' Association.

In the third paragraph, second line from the bottom, the word "avoidance" appears at the beginning of the sentence. Mr Kwinter asked for clarification on the use, and I imagine the intent, of that word. That is the word that is used in the report, in the particular section dealing with why renovators work on the black market. They also use some variation of that word as well as the phrase "tax savings." The word "evasion" does not appear.

Mr Kwinter: Mr Bulloch is still here; I notice that he also, in his remarks, talked about tax avoidance. My only concern is that there seems to be an impression in that article and the way people use it that tax avoidance is somehow or other a negative thing, whereas if you talk to any of the people in Revenue, they encourage tax avoidance; what they want to object to and what they do object to is tax evasion. Every citizen has the absolute obligation to avoid paying as many taxes as he can, as long as it's done within the regulations. Tax evasion is a criminal offence. It was just my concern that the particular report gave the impression that tax avoidance was a negative and was something that should be prevented. That was what my concern was.

The Chair: You did indeed raise this point before, and I would agree with you. I can't speak for all members of the committee, but—

Mr Mike Cooper (Kitchener-Wilmot): You can't speak for any of us.

The Chair: You're right, Mr Cooper. But let me tell you that avoidance and evasion, by definition, are two different things.

Mr White: They are, by definition.

The Chair: They are.

Mr Cooper: We'll accept that.

The Chair: This committee stands adjourned until next Thursday at 10 am.

The committee adjourned at 1723.

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White, Drummond (Durham Centre ND) for Mr Wiseman

Wilson, Gary (Kingston and The Islands/Kingston et Les Îles ND) for Mr Lessard

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Thursday 4 November 1993

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Jeudi 4 novembre 1993

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Underground economy

Économie clandestine

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 4 November 1993

The committee met at 1011 in committee room 1.

UNDERGROUND ECONOMY

ANTHONY N. DOOB

The Chair (Mr Paul Johnson): The standing committee on finance and economic affairs will come to order. We continue our deliberations into an investigation of the underground economy, and today our first presenter is Anthony Doob, professor of criminology, University of Toronto. If you would please come forward, sir, and make yourself comfortable. Whenever you are comfortable, you may begin your presentation.

Mr Anthony N. Doob: Thank you for inviting me. The work that I'm going to be talking about really derives from some research that I've been doing with Neil Brooks at Osgoode Hall law school on income tax and income tax evasion. Obviously that means that it's not focused directly on issues related to the underground economy, but clearly it's quite related to it.

Most of what I will be talking about is contained in the written statement which I believe you have before you and, as that points out, the research is derived from a survey which Neil Brooks and I carried out in 1990. We were focusing, as I mentioned, on income tax and income tax evasion, and previous witnesses before this committee have mentioned the issue of survey methodology.

In general, the comments that others have made before you would be ones that I would agree with, which is that the survey methodology allows one to answer certain kinds of questions, but, for example, one of the key questions which this committee is interested in, namely, the size of the tax gap, I think it's a methodology which is not appropriate for answering that question. One can, I think, get a fairly interesting indication of how people see tax and how people see tax evasion and in that sense it may be useful to the committee.

Obviously, because we were interested in tax and tax evasion, we did ask our respondents whether they cheated on their income tax. It may surprise members of the committee to find out that if you simply ask people whether they've cheated on their income tax, ask them perhaps in a slightly more sophisticated way by asking them whether they've had certain kind of income and whether they declared all that income in the previous three years, people are quite willing to admit that they cheat on income tax.

We found in our survey that about 18% or 19% of our respondents—these are Ontario taxpayers from randomly chosen households; each person we spoke to was the person who defined themselves as being most knowledgeable about tax in the household—admitted to cheating on their income tax and, relevant to the interests of this committee, the vast majority of those cheated on their income tax, at least in part, by non-reporting of income.

The overstating of deductions was mentioned by a relatively smaller number of people. The non-reporting of

income seems to be, from our survey and from other kinds of estimates, the main way in which people avoid tax, and in that sense obviously is of relevance to this committee.

I'll be very brief in my comments. As I said, they're detailed in the written brief that you have, but I think there are a number of fairly straightforward points which I'd like to make, and then if committee members have questions they might ask me about them.

The first one, and it's something which on the surface seems implausible but I think one has to be respectful of the views expressed by people whom we surveyed, and that is that the relationship between tax fairness and tax evasion is not at all clear. There's an assumption I think that many people make which is that if we had a fair tax system people would be much more likely to be respectful of it and to pay their full tax.

I think that the committee might consider tax evasion and tax fairness to be really two quite separate concepts. One wants to have something approaching complete tax compliance. One also wants to have a fair system. One can easily imagine systems which are completely unfair and quite easy to enforce, which would be where you'd get no tax evasion and complete unfairness, and perhaps the other way around. But the issue, I think, is that one should strive for both of these concepts, for tax compliance and for tax fairness, but one shouldn't assume that simply if we accomplish one, the other will naturally follow.

I point out on page 3 of the brief that in our survey we were again focusing on income tax. About 58% of our respondents thought the income tax system was unfair, but of those 58% who thought the income system was unfair, about 83% of them appeared to be completely complying with the tax laws as best they could. Of those who thought the tax system was fair, about 21% were evading. So one shouldn't think simply that fairness is going to lead to tax compliance. As I mentioned, I'm not putting down the issue of fairness; I'm simply saying that they're both important concepts that we should keep in mind.

Fairness itself is a more complex subject than often is spoken about. You obviously have a Fair Tax Commission which is looking into this issue, but in our work we identified seven quite separate, independent contributors to the concept of fairness. I've listed them, and some of them are the obvious ones, the ones which people point to and that I would imagine the previous witnesses before this committee have mentioned. Those are things like the amount that people pay, the marginal rates and so on.

But there are other parts of fairness, things which really have to do with fairness of the individual components of a tax system, things like systems of deductions. Also, a quite separate component from all of these is issues like the number of people who are seen as avoid-

ing paying their fair share through loopholes in the law, the number of people who are out there cheating, whether Revenue Canada was seen as doing a good job, and then others which you have heard people talk about: whether the government spends its money wisely, whether people feel alienated from the government.

These are really quite independent contributors to overall fairness, and if you consider what that means, it simply means that if you were to accomplish one form of fairness so that people felt they were paying the appropriate amount, it wouldn't necessarily mean they would feel overall that they had a fair tax system. A fair tax system seems to be a multidimensional concept. We identified seven independent ones, as I said. That number, seven, isn't a magic number; it simply probably reflects the limits of the particular method we used.

I give an example of the fact that there is some complexity in even evaluating things like deductions. We asked our respondents their views of one particular form of tax deduction for child care, and what you see in the table on page 4 is that people think it's reasonable for the state to subsidize the child care of relatively poor members of the Ontario community through the tax system, but people see it as dramatically unfair to subsidize through the tax system the child care of the rich.

Another point which I think has been suggested often when one talks about the underground economy is really that people justify or explain or cheat simply because of their concerns about various aspects of the tax system.

We asked people whether, for example, they thought a fair number of people were able to cheat because they were hiring experts to find loopholes in the tax laws and we asked people a number of kinds of justifications about tax evasion. Obviously, on something like finding loopholes, people did feel that there were groups of people out there in Ontario who were able to take advantage of the tax laws that they weren't able to take advantage of.

What's important about this is not only this perception of the tax system, but rather that the members of the Ontario community didn't see that this justified tax evasion. Only about 8% of those who thought there was a fair number of people avoiding tax through the tax system thought that this actually justified tax cheating.

1020

We asked people about whether they thought the overall tax system was unfair. As I've already mentioned, about 58% of people thought that the overall tax system was unfair, but only about 10% of those 58% thought that this actually justified cheating, and there are other examples again which are in the written material that's before you.

Probably the most serious problem that many people are obviously aware of in the issue of taxes is that we don't see it as a crime. It's easy to talk about tax evasion as a crime. I'm a criminologist, obviously, talking about tax evasion, but when we asked our respondents to evaluate tax evasion against other crimes of the same value, usually against the government, where there was a difference seen, tax evasion was seen as much less serious.

As an example, we asked people: "Which is the more serious offence: Evading \$1,000 in income tax by not reporting income, or working part-time while collecting unemployment insurance benefits and thereby illegally collecting \$1,000?"—the same \$1,000 that the government wouldn't have at the end of the process but presumably should have.

Unemployment insurance fraud is seen as much more serious. Theft of \$1,000 from the government is seen as much more serious than income tax evasion. Interestingly enough, even smuggling, another crime which we don't take seriously in our community, is seen as more serious than tax evasion. In terms of concerns about the underground economy, claiming false deductions is seen as more serious than the non-reporting of income. Non-reporting of income basically seems to be almost okay as long as you don't get caught.

Another important point that I would like to make about this is that in our concerns about dealing with problems of the underground economy or tax cheating in general, we tend to focus on deterrence or on direct enforcement attempts. In certain ways, I think the notion that we pay our taxes only because we're afraid of getting caught should be challenged.

Our respondents, again Ontario taxpayers, largely indicated that they wouldn't cheat even if they thought they could get away with it. The tax system, as we have it, in the income tax system and to some extent obviously in other areas as well, can be seen as a voluntary system. What we found is that about 80% of our respondents indicated that they wouldn't cheat even if they thought they could get away with it. We asked people, if they had opportunity where they knew they wouldn't get caught, whether they would pay their tax anyway, and most people indicated they would actually pay their tax.

The other point about deterrence is that most people know that cheating on income tax pays. It is a situation where crime does pay, and it's probably worthwhile to consider that particular problem. Quite frankly, it's probably almost impossible to make income tax or various forms of tax evasion not pay. You can occasionally catch somebody, but if you did an economic analysis of whether it's worthwhile to cheat, you'd find that in fact it is worthwhile to cheat.

The difficulty, from the perspective of simply pushing a deterrence model of tax compliance, is that we're probably in the end not going to be very successful. We're not going to be successful by looking at the problem through the eyes of the criminal justice system or through the eyes of a penalty system more generally. What we have to do is to look for other kinds of solutions. Deterrence models, models based on catching people who are doing wrong are very expensive, particularly in an area like this.

As I said, perhaps a starting point is to remember the positive findings that we found, which is that most people are paying their tax not because they're afraid of being caught, most people are paying their tax because they feel it's the appropriate thing to do.

I point out in the written material that there are some ways where, if you were interested, or if we were inter-

ested in general in our society, we probably could do a better job of estimating the size of the tax gap, the gap between what should be paid and what is paid in particular sectors of the economy. One of them obviously is to do what is sometimes referred to in the literature as a prospective audit, where the tax collector warns an individual or a company beforehand that they're going to be audited in the year 1994 and that the audit will continue occasionally throughout 1994. People under that circumstance probably are much less likely to cheat. One could, by comparison with other people who are not having this kind of intensive prospective audit, get a fairly good estimate about how much tax is being evaded. But as I said, that's probably a better way of finding out about the size of the tax gap than doing anything about it in general.

If one is looking for effective ways of dealing with tax compliance, I guess I would like to focus on two. One is that I think we do have to have, as a long-term goal, the changing of the view of tax cheating. It's a remarkable thing that we find that people will talk quite openly, not only on the telephone to survey people but rather at cocktail parties and everywhere else, about tax cheating. The only other crime I can think of that people talk about in this open way is smuggling. As I mentioned before, tax cheating is seen as even less serious than smuggling.

If you're looking for positive examples of change in many parts of society in how we see offences, I would use the example of impaired driving. When I was 20 years old, I remember people used to joke about driving home while drunk. Now if anybody were to talk that way, they would be seen as being completely out of touch with the way in which people think about the crime.

This is a long-term issue, and it's an issue which is itself a very hard one to deal with, but if we're serious about it I think we have to make full payment of tax a serious issue in our society.

The other way this committee might want to think about—and in the area I'm thinking about this obviously has some relationship to issues with the federal government as the tax collector—is that we have to think about the ways in which we can reduce opportunities. The obvious way in which we reduce opportunities in many areas of income tax is to have some form of information reporting.

My salary at the University of Toronto is reported to the government through a T4 slip. I presume I could get away for a few weeks without paying my tax at the end of the year if I owe tax, but presumably the tax collector simply matches the computer information the university gives the tax people and I would be caught not having paid my taxes.

That kind of information reporting as a technique can be extended beyond salary incomes. In other jurisdictions, the United States in particular, there's much more information reporting. It's seen as a burden, and it is a burden. I think one has to concern oneself with whether that burden is really too much and really what the benefit is.

If one were to do that, however, my suggestion would be that one should be cautious in targeting lost taxes

more generally than we sometimes do. I think we all have our examples, and this committee undoubtedly has heard the examples of various tradesmen, for example, who will do matters for cash at a lower price than if they do it with full invoices.

It may well be, though, that there are other areas of the economy where we should also have information reporting. One I find quite surprising is the sale of capital; that in sale of stock, sale of property, for example, there's no record the tax people have of such sales. When you're talking about large economic transactions involving individuals or small companies, what we have at the moment is in effect no way of tracking that. When one targets smaller individuals or companies, I think one also might want to think about targeting the larger ones.

The final point I'd like to make, and it does again relate to our survey, is that more aggressive tax enforcement seems to be acceptable to Ontario taxpayers. It's easy for people to come before this committee and complain about the burden of tax reporting. On the other hand, the people we asked, 1,900 members of the Ontario community, were quite happy to have more aggressive tax enforcement. They were willing to involve themselves and presumably their neighbours in more aggressive information reporting of financial transactions. In the written material I outline one of them.

1030

I think it's also interesting to look at one of the questions we asked; we were asking because there are some theories about this. We asked about Revenue Canada, everybody's best friend, no doubt. Revenue Canada, interestingly enough—and I suppose to the pleasure of Revenue Canada—came out quite well; People thought Revenue Canada was doing its job. But a sizable number of people thought Revenue Canada was doing a poor or a very poor job, and we did ask people why they thought Revenue Canada was doing a poor job. There were 290 people who gave us an explanation of why they thought the main tax collector they deal with was doing a poor job, and only one of those 290 thought Revenue Canada was too aggressive. The largest number of people thought Revenue Canada was not aggressive enough in collecting taxes.

So out there, if you're looking for concerns about it, what people seem to be concerned about is in a sense the same concern which is presumably driving this committee's interest at the moment, which is that there is a serious problem of tax compliance out there and people seem to be willing to pay some costs in order to deal with this particular problem.

I've spoken longer than I wanted to. I'm happy to answer questions.

The Chair: Thank you, Mr Doob. We have six minutes per caucus. We'll start with the Liberal caucus.

Mr Gerry Phillips (Scarborough-Agincourt): This is very interesting. I assume your full report is available publicly?

Mr Doob: I wish it were. We're in the process of writing it. If the committee had specific questions, I can certainly make available to the committee more informa-

tion about the survey. It would be very simple for me to do additional analyses if the committee would be interested.

Mr Phillips: For us to absorb it all, I would appreciate it if there's an opportunity for the research staff perhaps to work with you. I think this is as fact-based material as we've seen. Have you any sense of the trend of this?

Mr Doob: Unfortunately not. We did this survey close to three years ago and, as I said, we're in the process of trying to make sense of the data as a whole. To my knowledge, we had done one smaller survey within Metropolitan Toronto a few years before, but it was a different methodology and so on so I don't think the comparisons are there.

We really don't know. The best trend data I've seen on tax evasion are in fact the trend data which I think were referred to by a previous person before this committee, the paper that Peter Spiro at the ministry of treasury has produced. That's on a specific form of tax evasion. I don't know.

Mr Phillips: Just a follow-up, and then maybe Mr Kwinter. We're really wrestling with this thing. Do you have any advice for us in terms of areas where you think the problem may be larger than other areas? The reason I ask is that cigarettes have become kind of a metaphor for the underground economy, but some people, myself included, think the issue may be even more serious in other areas. Have you any sense of—

Mr Doob: I don't. The simple answer is that I really don't know what areas of the economy would be most serious. We were obviously focusing on individuals and were asking about individual tax; small businesses and so on to some extent get melded in with individuals, but I really don't have a clear answer to that. One of the points from our data, though, which I haven't referred to here, is that it's really quite widely, broadly based. People have different levels of opportunity to cheat on their income tax or on taxes generally, but when you look at simple demographic characteristics, things like income and so on, it really is quite different.

One of the things I may have mentioned in this is that second incomes seem to be seen by many people as being quite different. I've had arguments with people who in effect say you don't have to pay tax on a second income, that you pay your fair share on the first one and the second one doesn't count. Our data suggested that as well, which is that people see cheating on second incomes, on extra things, as being much less serious. I think that fits our own intuitions about the way in which people do it: "I pay my taxes through my T4 slip, but other stuff doesn't count. It's none of the government's business." If I were to target things, I would target those kinds of matters. Those would be the obvious ones.

But as I said, it may well be that there's an enormous area we don't even know about, like large financial transactions. My feeling would be that in the long run the best strategy would be to encourage the ministry to do some proactive audits to try to find out where these things are, to do research on where you're losing money on large financial transactions. I may be dead wrong and

it may be, now with the stock market very high, that if you really do track back on stock sales, people are paying, but it may be that they're not.

I would think that one of the things would be to do some work on those and then come back and say, "Here's where we think we're doing it and here's how we might deal with it." As I said, other jurisdictions do have much more information reporting about financial transactions. In many instances, in the United States in particular, they are doing this with some knowledge that that's where they're losing money.

Mrs Elinor Caplan (Oriole): I'm going to be speaking in the House in about three minutes, so I'm going to place my question and I would like the answer even though I may not be here to hear it personally, and I apologize in advance. I'm interested in the kinds of research you would recommend, if you can, the design of the kind of studies the ministry can be doing, the kind of information and data it could then use to adjust policies in a way that might raise public consciousness about the importance of participating appropriately.

Mr Doob: I would answer in two ways; that is, that it seems to me there are two issues. One, as I said, is a long-term concerted effort to change the view of tax evasion, and that goes well beyond the role of the ministry. But the second kind of research which I would be interested in would be action enforcement research, saying: What kinds of actions can the ministry take, in terms of information reporting and so on, which seem to increase revenue? The measure which one could easily use is revenue. In a province the size of Ontario, one can obviously try certain kinds of techniques with certain individuals or certain companies and compare that to see whether revenue increases with that as compared to people you really don't have the resources to deal with.

I'd like to give just one example of one of the difficulties and one of the problems. There's an assumption in many ways that auditing people has not only the impact of getting money at that particular audit but a long-term impact, that if you've been audited for 1993 you're not going to cheat in 1994, 1995 and 1996 and so on. The data on that, interestingly enough, are mixed. There are some data which, on the surface, paradoxically suggest that people, after being audited, cheat more.

The simplest explanation that comes to mind is that people are trying to make up for the money they gave to the government in the previous year. It may actually be more complex than that; it may relate to the way in which people cheat. If you think about an audit, what's easy to audit is deductions. If there's something on paper, that's a good thing for the tax collector to start with and to ask questions about and question its legitimacy. On the other hand, what the taxpayer may be finding with audits is that undeclared income simply isn't found. What that suggests is that we have to focus on that.

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If we want to really find out what the impact of an audit is, if we want to find out whether there's an impact on the particular individual or on other people within the community or within the business sector, it's quite possible to do experiments on this. The ministry doesn't

have sufficient resources to do complete audits as much as it undoubtedly would want to, so these can be done on some parts of the economy, to look at comparable parts of the economy and see whether there really is a spread of positive impact. There's a lot of enforcement research which could be done with the resources that are there.

I think what has to happen is that the ministry would have to be encouraged to take a more experimenting view of the collection process. Everybody's estimate is that there's a lot of money that is not being collected, and in that sense it's perfectly reasonable for the ministry to try four or five different kinds of approaches to this and be able to compare with other parts of the economy where it doesn't have sufficient resources to do enforcement actions.

Mr Gary Carr (Oakville South): Thank you very much for a very interesting presentation.

As you know, reading the paper from last week, the Treasurer has already said that he's going to increase fines. He said he's going to introduce legislation. A quote from the *Toronto Sun*: "Legislation will be introduced this session. You're going to see increased fines, jail terms, beefed-up auditing and police." On page 7, you say, "As has been pointed out to you, auditing is expensive and to some extent it is not very effective."

First of all, I would have thought the Treasurer would have waited to hear everybody in the hearings before jumping to conclusions, but you seem to be saying that in spite of the fact that the public would like more auditing, it really isn't going to help that much. Based on what the Treasurer said, is he wrong in his assessment to be already talking about introducing legislation to end this problem?

Mr Doob: I apologize for the answer I'm going to give, but I'm going to answer as a researcher. There are lots of techniques out there to try to deal with the problem. Retrospective audits are one of them. One of the approaches in retrospective audits, one of the issues really, would be to see what the effectiveness is in the long run. So if I were in charge of that, audits might be one of the techniques that I would use.

I would, for example, say, "How many people do I have the funds to audit?" just to use that as an example. Let's say we can audit 500 people with these particular funds. I'd say: "Okay, let's choose 1,000 we would like to audit"—and that won't be very hard, because I'm sure the tax people would have no difficulty—"and let's audit 500 of them. Let's watch them for the next couple of years and watch the other 500 we didn't audit and see whether we're really having a long-term impact and whether that impact is positive or negative." So one of them would be to do that.

I'm not terribly enthusiastic about turning to, in a sense, the criminal justice system and fines and so on. I'm not terribly enthusiastic in seeing that as the solution to the problem, but one of the arguments that's used is that some of these are major crimes against the government. We lock up people for unemployment insurance fraud and we have a view in our society that unemployment insurance fraud and welfare fraud are very serious kinds of offences, but we don't see income tax in the

same way.

If one of the ways to increase the perceived seriousness of income tax fraud so that you make people feel they've done something wrong if they cheat on their income tax is to treat it seriously within society, you do that in part through the criminal justice system. I don't think locking people up or giving them high fines is necessarily going to solve the problem, because the chances of being caught are just so small. But what it may do in the long run, not immediately, is to help change our view of the offence.

Mr Carr: Are there any data from other jurisdictions that have toughened up? Rather than us spending the money and possibly finding out it doesn't work, what about other jurisdictions, not only in Canada but in the United States, where this has been done? Has it been proven to work in other areas?

Mr Doob: The simple answer to that is that we don't really know what these broadly based techniques do. In part, we don't know about them because what happens is we change our policy, but then a variety of other kinds of things occur.

For example, I'm not sure whether this is true, but you've heard from Peter Spiro, you've certainly heard from people in the ministry, when you look at his data and you say, "What would've happened if in 1990 we would've done something or another," and then the federal government comes in with the GST, and all of a sudden the size of the cash balances increase dramatically. It's very difficult to disentangle these things and it's very difficult for us to know whether something which worked somewhere else or which had an impact somewhere else would do things.

I think what we do know from other jurisdictions is that basically the reporting of financial transactions that occur in society and letting the government know that these transactions took place, that's a very effective way of dealing with it. My guess is that the tax collector could in fact take all this information and store it very carefully and do very little with it.

But if most of us believe that this form is going, if there's a financial transaction, if I am receiving some money and I know that a form is going to Ottawa, even if I think that they might not match it with my tax form, I say: "Well, they have a record of this. I'd better declare that income." We know that when there's information reporting the amount of declared income goes up.

Mr Carr: The bottom line, you seem to be saying about 18% of people admit to cheating. Based on your best knowledge, how much cheating percentage-wise do you think there is in the system today? If 18% reported, that would obviously be the low-end number we've heard anywhere. I won't ask you to translate what that means to the economy, because we can do that very quickly looking at the GDP, but what is your best guess percentage-wise of the amount of cheating going on in the system right now?

Mr Doob: My guess is that in terms of very small amounts, we're talking at least double that. I think what's happening with even the 18% is that they're probably a

relatively small number of people who are what might be called dedicated cheaters who are sort of consciously doing it throughout the year.

What probably is much more common is occasional second income, occasional financial transactions and things of that sort where a person does some work for a neighbour, gets a few hundred dollars and says, "Well, that's it. I'm putting it in my pocket," and that's the end of it. My guess is that it's more that kind of thing, and the number of those would be dramatically higher.

The people, I think when we were asking the questions, may not have even thought about those. They may not have thought about them when we asked about, "Did you have any other self-employment income?" They're not thinking about the fact that they painted a neighbour's house or plowed their driveway or whatever it might be.

Those kinds of transactions, relatively small transactions, just aren't thought of, so my guess is it's much more widespread in minor ways. Obviously from the data from the ministry, we do know that we're losing an enormous amount of money that isn't coming into the treasury, and my guess is that's concentrated in certain areas.

Mr Carr: As we publicize this, as we're doing with hearings like this, do you think that will make it worse?

The Chair: Mr Carr, we're going to have to go on to the government caucus.

Mr Kimble Sutherland (Oxford): Thank you, Professor Doob, for a very good presentation. We haven't had this perspective presented on the issue as of yet, so it certainly adds to our investigation into the issue.

I thought it was interesting, your comments regarding welfare fraud, unemployment insurance fraud, how much emphasis all that gets, but the comment you made that tax evasion is basically in the same category and that all of us as people in our society in this country should view it in the same category as welfare cheating and unemployment insurance fraud. I think those comments are certainly well taken.

You focused primarily on income tax. I'm wondering if you had any comments on sales tax. We certainly heard evidence before this committee that there seems to have been a growth since the implementation of the goods and services tax, it being a very unpopular tax and people wanting to find ways to avoid paying that. Of course, once you find a way to avoid paying GST, it's not hard to avoid paying provincial sales tax, or in that fact avoid paying income tax. I'm wondering if you have any specific thoughts on how any changes to the GST, besides eliminating it, may help deal with the situation.

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Mr Doob: I think what happened in that situation is that all of a sudden the financial advantage obviously changed, and on January 1, 1991, the financial advantage of not reporting sales and services transactions changed dramatically for many people. Again, my guess is it's seen in much the same way, cheating on sales tax and GST is really seen as much the same thing: As long as you're not caught, it's all right. You'll find people talking about it as if really there's no offence taking place.

There's an interesting aspect of that as well and I think it goes back to the problem of how tax evasion is seen, and that is that when you look at these transactions, you go in and purchase the service or purchase some goods and there's a little bit of bargaining going on and you say, "I'll pay cash. How much would it be if I paid cash?" and they give you a lower rate. You know perfectly well that what's happening is that this is a cash transaction where no sales tax is going to be paid. It's not just that the person's going to swallow the tax and pay it themselves the way sometimes the big department stores do, but this is a transaction which no tax man's ever going to hear about.

What you're doing as a customer, obviously, is being party to an offence. There's no other way really to say it. You're benefiting from a crime, you're encouraging a crime, you're doing a variety of things. It happens not to be a crime, because of course no offence has taken place. I pay \$1,000 to somebody to do something for me and it's all cash and I can say to myself, "He prefers my cash to my cheques," and I don't know what he's going to do with the tax man; that's his business. I can write that out of my conscience by saying that's between him and his tax man, not me and my tax man. I've gotten an economic benefit; otherwise I wouldn't have done it.

I think we have to start thinking about that issue and part of the way in which we might think about that issue, as I said, would be to make information reporting a responsibility. If I pay somebody a substantial amount of money without a transaction, it's not going to be that hard for me to say, "I paid such-and-such a company this much money," and I send in a little card to the tax person so there is a trace on that. Our respondents said they're perfectly willing to do that, especially for larger transactions. Again, one would want to do this, I think, across the board. So it is broad and I think the issues are quite the same.

The Chair: Ms Haslam, you have about two minutes.

Mrs Karen Haslam (Perth): That's very interesting, because I just came from a meeting that said there's too much government intervention, there's too much paperwork, there's too much recording, there's too much of this. You're saying now we should add another layer of reporting by small business people or by the purchaser. Do you really think that doing it in a large scale across the board would be accepted?

You are a professor of criminology and a lot of my questions are going to go back to that. I have two or three different questions, so could you just comment on how business and people would see that?

Mr Doob: I realize you just got this today, but on the bottom of page 8, top of page 9, we asked people the question: "To collect the right amount of tax from everyone, should everyone who pays \$500 to a contractor like a plumber or electrician have to send a simple form to Revenue Canada reporting the payment?"

Half of our respondents said that was okay. Increase the amount to \$5,000 and close to two thirds say it's okay. So my starting point would be nobody likes it, I'm not going to like it, but you can imagine a form that would be very simple. But the point of it all is that if this

were described to people as an effective way to make the system more fair—

Mrs Haslam: But you're talking taxpayers and I'm going back to my original comment that small business people would look on this as another layer of paperwork. Would we bring it in that as a contractor they now have another form to fill out every time Mr Phillips wants to pay cash?

Mr Doob: No. Let me take the simplest thing, which is that the contractor would be obligated to give a customer this card and the customer would have to send it in.

Mrs Haslam: I don't want to get into a debate, I just question another layer. Wouldn't it be a situation where some contractors would give you a card but some wouldn't, and then you're back to saying, "It's \$2,000 cash but it's \$1,900 if I don't give you the card"?

Mr Doob: I'm not suggesting that it's going to be simple or that I have the answers as to the mechanism to do it. I guess what I'm suggesting is, though, that the most effective way I know of to track transactions would be to have some record of them. Various attempts have been made in various jurisdictions to increase information reporting. It may well be that what I'm suggesting would turn out to be unacceptable to small businesses and it may well be that it would be ineffective. I think one of the points, though, about it is that it is, in addition, a way of reminding people that were they not to do it, they're really benefiting from a form of illegality.

Mrs Haslam: Have I got a minute? I've got some—

The Chair: I'm sorry, Ms Haslam. We are out of time; in fact, we're a little over time. We do have another group of presenters here who have been waiting because we started a little late.

Thank you very much, Mr Doob, for presenting before the committee today.

ADDICTION RESEARCH FOUNDATION

The Chair: Our next presenters this morning are the Addiction Research Foundation, if Mark Taylor, Dr Roberta Ferrence and Dr Norman Geisbrecht would please come forward. Please make yourselves comfortable. I apologize for any mispronunciation of your names. Would you be so kind as to identify yourselves for the committee members and for the purposes of Hansard.

Mr Mark Taylor: Thank you, Mr Chairman. You pronounced my name perfectly; I'm Mark Taylor. But then, that's the easy one. Sitting on my left is Dr Roberta Ferrence, who is the director of Ontario's newly established tobacco research unit and a senior scientist in the Addiction Research Foundation, and on my right is Dr Norman Geisbrecht, who is an alcohol policy researcher of, if I dare say so, some renown and also a senior scientist at the Addiction Research Foundation.

The Chair: You may proceed whenever you're ready.

Mr Taylor: I'll be talking about our broad community, the province of Ontario, and the impact of the underground drug economy on our individual and collective lives.

It may surprise you to hear that I am as worried by the

traffic in smuggled cigarettes and alcohol as I am by the trade in illegal drugs. Cheap alcohol and cigarettes threaten our health and wellbeing, damage our economy and undermine our collective commitment to society; I might have said, "our collective social contract," but that expression has taken on a certain meaning of its own of late.

Setting aside coffee, alcohol is the drug of choice for most Ontarians. After alcohol, tobacco is the next most popular one. While most of us buy our cigarettes and alcohol legally, the underground economy related to these substances is big business. In 1992, according to the Liquor Control Board of Ontario, the value of illegal alcohol sales was about \$750 million. The value of smuggled cigarettes, the legal retail value, was \$448 million. That's well over \$1 billion between them in Ontario in one year. It has surely increased a great deal since then, particularly when we speak about cigarette smuggling.

I can't tell you what the illegal drug trade is worth in Ontario. Attempts to estimate it were abandoned many years ago by sensible folks. But my gut-level belief is that the illegal traffic in cigarettes and alcohol pretty much matches the illegal drug business, and it probably involves a far greater number of people.

Surveys by the Addiction Research Foundation show that in 1991 four out of five Ontario adults and three out of five students consumed alcohol during the previous year. Alcohol use is widespread and widely accepted as a part of our social fabric. None the less, there has been a growing understanding that problems associated with alcohol use are a major public health concern and therefore a major economic concern.

I want to be clear that I'm talking not just about the problems of alcohol dependence, but about other problems associated with alcohol use as a whole. For example, you don't have to be alcohol-dependent to drink to excess and then to drive and then to crash. Alcohol plays a role, in fact, in about 7,000 deaths each year in Ontario. Alcohol is a cause of liver cirrhosis, cancer and deaths and injuries from traffic crashes and other mishaps. It is also a significant contributor to family and workplace problems. In Ontario alone, 640,000 people report some physical, social or health-related harm as a result of their own drinking.

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It is, of course, impossible to put a price tag on the human suffering associated with alcohol abuse, but in economic terms ARF estimates that in 1990 alcohol abuse cost Ontarians roughly \$5.8 billion in increased health, welfare, workplace and law enforcement costs. These human and economic costs of alcohol use are the background against which the question of the illegal alcohol market should be considered.

As I indicated earlier, the Liquor Control Board of Ontario estimates that smuggling cuts something like \$450 million out of the province's legal alcohol market each year. Illegal production inside Ontario is valued at another \$300 million. Taken together, this represents about 14% of Ontario's alcohol market.

The existence of this illegal market undoubtedly represents a substantial loss to the provincial treasury through uncollected taxes, but even legal alcohol is a bad bargain. Every drink consumed in Ontario in 1990 cost society—you and me and our fellow taxpayers—roughly \$1.30 in health care, law enforcement and lost productivity costs. The same drink generated only 25 cents for the provincial treasury in taxes, licence fees and Liquor Control Board profits.

This stark comparison suggests that the major goal for government alcohol policy should not be generating revenue; rather that we should concentrate on reducing the social burden of alcohol.

Undercutting the illegal market by reducing taxes might shut down the underground economy. It will not, in our view, solve our alcohol problems and may in fact contribute to them. Lower the price of alcohol by reducing taxes and consumption will go up. Those of us who would not smuggle alcohol or run a still in the garage because it's illegal might be willing to take advantage of lower prices to use a little more alcohol.

It's not just a question of the price to the consumer. It cannot be said often enough: The impact of alcohol abuse in any society is closely linked to the way in which alcohol is sold. When alcohol is made more available, consumption rises. When consumption goes up, the number of people who experience alcohol-related problems also increases.

This is why at the Addiction Research Foundation we think the Liquor Control Board should be maintained and strengthened in the interests of the public health. The government must ensure that the Liquor Control Board continues to fulfil its primary mandate: alcohol control in the public interest. Equally important, governments should maintain their resolve to tax alcohol at a level which minimizes its damage to society. I think of this particularly when I read of fatal tragedies involving young people, cars and alcohol. The price of alcohol has a significant impact on consumption by young drinkers and on those who drink heavily. If you're interested in a more detailed discussion of these issues, I've provided you with two of our Best Advice papers which deal with the public health role of taxation policy and retail alcohol monopolies such as the Liquor Control Board.

If alcohol policy decisions involve balancing access to alcohol for consumers against public health concerns, we are less in conflict about marijuana, cocaine, heroin, LSD and other illegal drugs. All illegal drug use is part of the underground economy by definition, and we don't have to look far to see the impact it has on our community.

In recent years, for example, it's been estimated that the social burden of illegal drug use in Ontario is about \$1.9 billion per year. This is a terrible cost, although much lower than the \$5.8 billion that alcohol use costs us. The reason for the disparity is that far fewer people, approximately 10% of the number, are involved in illegal drug use compared to alcohol use.

But we should point not only to the financial costs but also to the human costs. Toronto newspapers have been filled with stories about people whose lives ended tragically through heroin overdoses. We've also heard

recently about drug-related deaths inside our prisons.

Beneath the statistics are many stories of youthful experimentation, of addiction, of degradation and pain. Among the most significant stories are those of the additional health risks associated with injection drug use, a practice which can lead to HIV or AIDS infection. In the United States and Canada, the sharing of HIV-contaminated needles is one of the most common causes of infection. Setting aside the terrible suffering and pain of this killer, you don't have to be an accountant to imagine the financial burden of this and other health-related effects of drug use.

I can tell you that our problem here in Ontario is much less severe than the problems being experienced in other jurisdictions. In New York, for example, more than 60% of injection drug users have HIV. In Toronto, that rate is about 4%. The difference is attributed to needle exchange programs and to a more humanitarian approach to the problem.

There's a lesson here in the harm reduction approach, an approach designed to reduce the real and terrible effects of the underground drug economy in all its aspects. Providing clean needles is harm reduction. It reduces the harm of drug use to the user, the family and the community. It is a crucial first step. Clean needles do not stop someone from using heroin, but they might stop her from getting AIDS. It might bring him into contact with caring professionals who can help stabilize his life and it might eventually lead to treatment and to an end to drug use.

Taking a harm reduction approach might mean investing more money in prevention and education and less in law enforcement. It might mean taking a hard look at the penalties which we put on marijuana possession, a suggestion recently made by the Canadian Police Association, which have high enforcement costs and which may damage the user more than the use.

We are just at the beginning of understanding the significance of taking a harm reduction approach to illegal drug use, but we are already certain that it represents a practical way to reduce the social, and therefore economic, burden.

A related issue is prescription drugs. Although solid numbers are difficult to come by, we estimated several years ago that the overuse and illegal use of prescription drugs generated social costs in the order of \$2.8 billion a year. That's about 50% more than illegal drugs.

It is not really possible to separate illegal use from overuse in these kinds of estimates, but it is clear that there is a significant underground component to this problem; think of uppers and downers and, more recently, of steroids.

Having said all that, it will not surprise you to learn that one of our most significant concerns is a legal drug: tobacco. When anyone brings the underground economy to mind these days, I am sure we all immediately think of contraband cigarettes sold under the counter or out of the trunk of somebody's car.

It is an insidious problem, not only because people buying smuggled cigarettes don't care that they are

cheating the government of tax revenue, but because the solutions touted by the tobacco manufacturers and by the smokers' rights lobby will do harm to the public health. There is no doubt that the lost revenue and the accompanying criminality cost us, but the health care and human suffering costs of smoking are also high.

Let's look at tobacco in human terms for a moment. About 27% of Ontario adults use tobacco. Nearly 24% of students in grades 7 through 13 also use it. In 1989, more than 13,000 Ontario residents died of causes related to tobacco. We can expect that figure to continue rising for many years to come.

In financial terms, smoking is very costly. The Pan American Health Organization estimates that in 1989 the total cost in Canada for health care, premature mortality and unemployment caused by disability was \$9.5 billion. In contrast, tobacco taxes brought in only \$5.5 billion.

I must stress, however, that dollars should not be the overriding issue here. We do not tax cigarettes to recoup the cost of the health problems caused by cigarettes. Rather, society recognizes that high prices do reduce consumption. We tax tobacco to prevent health problems.

The cause-and-effect relationship is really quite simple. Every time tobacco prices go up, more people quit smoking and, more important perhaps, young people are discouraged from picking up the habit in the first place. The Addiction Research Foundation believes that any move to reduce tobacco taxes will result in an increase in consumption.

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The crux of the contraband problem is our proximity to the United States. The price differential between the two countries has created a situation that is ripe for smuggling.

Let me make this point very clear: Canadian cigarettes are being smuggled back into this country not because our taxes are too high, but because American taxes are too low and because, in lifting the export tax, our federal government created a loophole through which 50-foot tractor-trailers are continuously driving.

If we lived next door to almost any other industrialized country you'd care to name, this problem simply would not exist because our taxes are in line with what others are doing. The United States, however, is taxing its cigarettes far less than almost everyone else. But that does not make us powerless. The good news is that the problem can be fixed without lowering Canadian taxes.

First of all, Ontario should be lobbying the Clinton administration and US border states to raise taxes on cigarettes. The Clinton administration is already thinking of doing this, but higher taxes at the state level would also have an effect. The price per pack would not have to necessarily equal the price per pack in Canada in order to reduce smuggling. Just raising taxes by, say, about \$1 a pack will reduce the price differential enough to make smuggling less attractive.

Secondly, the federal government should reimpose the export tax on cigarettes that it rescinded last year. During its brief life, that tax did significantly reduce cigarette exports. That meant fewer cigarettes were being smuggled

back into Canada. The current situation is a direct stimulus to this contraband trade. We all know that the majority of cigarettes exported to the United States are coming right back into Canada, many of them through Ontario.

Finally, we should ensure that all the remaining tax loopholes in Canada have been closed. You may have seen recent reports of a store in Kingston that sells uncut tobacco to consumers, who cut their own tobacco and make their own cigarettes. This procedure avoids, quite legally, the federal excise tax and makes these homemade cigarettes far less expensive than manufactured ones.

I wrote to the former Minister of National Revenue, Garth Turner, to ask him to close this tax loophole before this type of store spreads elsewhere. I'm hopeful that his successor will take appropriate action.

Legal loopholes, whether they are you-brewns or cut-your-own-tobacco shops, contribute to the social burden in the same way as smuggled cigarettes or alcohol.

I should stop now and thank you for your attention. I'm happy to answer your questions, as my colleagues will be.

The Chair: Thank you very much. We have almost 15 minutes per caucus, if you'd like to start, Mrs Caplan.

Mrs Caplan: I'm pleased to see you again. It's nice to have you here; excellent brief. I wanted to discuss both some of your options and also share with you in my questioning, as well, some of my own thinking.

As you know, I've been an advocate under the rubric of healthy public policy for the kinds of options that you proposed. I would say on the record that it was always my hope that increased tobacco taxes would result in reduced tax revenue. Be clear on that: Increased tobacco tax should not result in more taxes and revenue dollars for the government to spend, but in fact reduce tax revenues because people would be buying fewer cigarettes because of the tax increase. We know there's a direct relationship between the level of taxation and the purchase of the product, be it cigarettes or alcohol.

I wanted to make that point because I think a lot of people see tax increases in the sin taxes, as we've usually referred to cigarettes and alcohol, only as a tax grab for more money. It was always my hope that it would do exactly the opposite and reduce revenues to the government. That was one thing I'd like you to expand on, as to whether or not that was something you considered in your research.

The other point is sort of where we are today, the reality that our tobacco taxes, while we compare favourably with other provinces, as you've noted, are so out of whack with what's happening in the United States and the fact that smuggled cigarettes are being sold quite openly to exactly the target group: I'm talking now about young teenagers and particularly young women, because it's my understanding that the statistics are showing that more women now smoke than men, and that more young women begin smoking than young men.

My concern has always been that you hit a point at which your tax increases become counterproductive. Perhaps you could expand on that in some of the time we

have and give us your advice and any research you've done in that area.

Dr Roberta Ferrence: Yes, I'd like to respond to that. Tax increases at the present level do not lead to reduced revenue. They actually lead to increased revenue. The reason for this is that the demand for tobacco is still, at the present tax level, relatively inelastic, which means that for a given price increase, you have a less than proportionate decrease in consumption.

We don't know the point at which the tax level would actually result in a greater than proportionate decrease in consumption. We know that this does happen for adolescents. They are much more price sensitive than adults. This isn't necessarily a bad thing. It's a good thing in the sense that there certainly is more scope for an increase in taxes without government revenue declining. Of course, we all want to see a decrease in consumption, and we are seeing that, not only in the number of cigarettes smoked but also in the proportion of people who smoke.

Mrs Caplan: If I could just ask a supplementary on the first part of your response, which I found very helpful, I chose my words carefully. What I said was that I had always hoped that an increase in the tobacco tax would result in reduced revenue.

The reason I made that point is that if you look at the concept of taxation on cigarettes and alcohol as healthy public policy, then your goal is not to increase revenue for the government but to reduce usage. I don't know that we could ever determine at what point revenues would drop, but it would be my hope that we could achieve that expeditiously. I think we've raised public consciousness about how horrible smoking is in relation to the health of the individual and the impact on lung cancer and so forth.

I don't know if you've done any research that would suggest, and you've said you haven't, what that level might be, but I was struck by the fact that you said it was adolescents, those who would be beginning smoking, who were price sensitive and that the concept of reduced revenue as a result of increased taxes could well occur, particularly with the group that we would like to see not start in the first place or quit shortly after having started because it couldn't afford the increased price. Could you just expand on that a little bit?

Dr Ferrence: I think in the future we will see more of an effect of tax increases. The main reason would be because smoking is now much more common among low-income people than high-income people. This is a historical sort of process. Low-income people, of course, would be more price sensitive, as long as they don't have access to other ways—

Mrs Caplan: Smuggled.

Dr Ferrence: —smuggled cigarettes or make-your-own cigarettes. So I think that potential is there.

I don't think we have to worry about the balance. Part of the problem is that tobacco is extremely addictive, as you know, and that people who do want to quit don't necessarily quit. They don't respond as quickly to the market forces as they might with other products because they are so addicted.

Mrs Caplan: Are you concerned, as I am, because

I've said this publicly in the House and on the record, that if we continue to raise taxes without seeing corresponding increases in the United States, then the level of smoking could well increase and that tax policy, rather than being a deterrent—because people would switch to smuggled cigarettes and it will become, as it has become, open and far more acceptable to buy smuggled cigarettes—we'll see an increase in smoking in the lower-income groups and adolescent youth? That's a concern I have.

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Dr Ferrence: Our surveys indicate that the prevalence of smoking is still declining in Canada, and I should add, in response to your comments about women and young women, that it is declining among women and among young women. There is a very common misperception about this. It's certainly still a major problem, but it isn't as great as the press can lead many people to believe.

I think it's critical, though, that the price difference between Canada and the US be reduced. There's quite a lot of evidence the United States is prepared to raise its taxes at this point, and if we can, as Mr Taylor said, convince the new government to reinstate the federal export tax—we don't have to have price equity with the United States. We just have to reduce it enough that it no longer becomes worth taking the risks, and there are significant risks attached to smuggling.

A lot of people will never buy smuggled cigarettes, and even those people who do aren't necessarily going to take up smoking or increase their smoking a lot because they're buying smuggled cigarettes. They don't have access all the time to smuggled cigarettes. But we do know that between 30% and 40% now of consumption is from smuggled cigarettes, so it has become a really quite major problem. But the solution is really much simpler than many people would believe, and it's the two measures we've talked about today.

Mrs Caplan: I find the comments interesting. I'm also interested in clarifying, just for my own information: I'm pleased to hear that when you use prevalence rates, that's sort of the numbers of new people who are starting smoking. Is that correct?

Dr Ferrence: No, that would be the number—

Mrs Caplan: Overall, the number who smoke?

Dr Ferrence: Who smoke, right.

Mrs Caplan: So overall the number of people who smoke is declining, and we're also seeing a decline in women and young women, but it's my understanding that more young women and women smoke than young men and men. Is that accurate or inaccurate?

Dr Ferrence: Women over 25 are less likely than men to smoke and they're also less likely to smoke very heavily. For women under 25, it depends on which province and which jurisdiction. They're roughly equal. The big differences now are by social class, not by gender. What's happened is that at one point rates were much lower, say, for adolescent girls than boys and now they're roughly equivalent, depending on the survey you look at.

Mrs Caplan: Would you say that's a result of the

public education campaigns as well as taxation policy?

Dr Ferrence: We think taxation has had the greatest effect, because the United States has had just as many public education campaigns. In fact, theirs happened earlier than ours. They've also had bans on public smoking and other important measures. So until 1989, when the advertising was banned, the only difference we had between Canada and the US that's very clear was a tremendous increase in taxes here, and what we have seen, particularly among the price-sensitive adolescents, is a major decline, close to 60%, since about 1980, and the same thing hasn't happened among young people in the US. Their rates are also at similar levels, but ours were higher before, because Canada's always been a bit behind the US in smoking policy.

Mrs Caplan: My last question really follows, because I know a lot of the work that you do is in behaviours as well as in attitudes. I have been an advocate for an increase in tax on alcohol and on cigarettes, but particularly on cigarettes. That's been something I've been an advocate for, particularly from the time I became Minister of Health in 1987, because I've been aware of the arguments you make and seen the results of the studies that show the impact of tax policy.

But I am concerned that if we see an increase in tax on cigarettes before the differential between us and the United States is reduced, and people's behaviour starts to make purchase of smuggled cigarettes acceptable, it's really hard to then change the behaviour back again that says you shouldn't buy smuggled. Once there is a market in place for smuggled products and people are looking for them, unless that differential is reduced, more and more people will turn to the less expensive smuggled product, so it becomes a behavioural thing where increases in our taxes without that reduction could be counterproductive to the goals that we share.

Dr Ferrence: If nothing is done right away and we do raise our taxes, the United States—just a moment, I've lost it. Why don't you comment.

Mr Taylor: I'd like to pick up one aspect of Mrs Caplan's questions, which come back with some recurring vigour to the question of whether, in effect, the saturation point has been reached in using the taxation lever with regard to tobacco.

I think the evidence probably says that it has not in strict terms of its impact on overall consumption, notwithstanding smuggling. But the issue, I suspect, is a broader social one, and it may show in individual behaviours in the way you're talking about it; that is, there is a level of intolerance on the part of the society for flagrantly illegal behaviour, and instinctively, as a citizen, I would suspect we are about at that point.

The judgement as to whether you should continue to pursue a narrow, health-based policy or whether the broader issue of flagrantly illegal behaviour is one you should take into account is, I guess, what legislators are elected and paid for.

Mrs Caplan: That's much of what the work of this particular committee is about as we look at the impact of the underground economy, because what I'm really

concerned about is that as that behaviour becomes acceptable, we start to see an unravelling of the values within our society that could lead to the kind of society that we wouldn't like very much.

Mr Taylor: Right. But even so, we made the point that in our view, even if one put a cap on taxes, so to speak, for the moment, we are not helpless in the face of that because of (a) the possibility of working on the federal government to reimpose the export tax; (b) the general move towards financing health care in the United States is putting upward pressure on taxes; and (c) I suspect that some of the border states might be amenable to being persuaded that it's getting out of hand on their side of the border as well.

There probably is a commonality of interest surrounding this. There are a lot of ways to go. I don't think they have to be a tax-based approach.

Dr Ferrence: On the issue of reversibility of attitudes, I think there are two factors there. One is that when the export tax was imposed, there was an immediate effect on smuggling. It did go down quite substantially. The other point is that when and if these measures are put in place, smuggling will automatically be reduced. People will not have the option of saying, "Will I or won't I buy smuggled cigarettes?" They will become far less available. I think we have that control on behaviour.

Mr Sutherland: I too want to thank you for coming forward. I think everyone here agrees that the Addiction Research Foundation is seen and recognized as the primary source of information on addiction behaviour, particularly when it comes to tobacco, alcohol and illegal drugs, and you certainly know that your reputation goes far beyond this province and that you've done excellent work.

I want to follow up a little more in terms of what Ms Caplan was pursuing. I think most people understand the information; they understand the data that say the harmful effects tobacco will have, alcohol will have. They understand that. They can understand the basis for higher taxes, to a certain degree, on those products to try to reduce use. Yet with all that information, they're still willing to go out and purchase illegal cigarettes at a much cheaper price. I guess there is an individual sense of invincibility out there, despite all the evidence, that somehow they'll beat the odds.

You've put it back in our court, and that's fair enough, in terms of how you find that balance between an appropriate tax policy on these products to discourage that versus what type of other messages are going out there now that we're having a significant effort made by people in this province to avoid paying taxes. Once they start purchasing illegal cigarettes, does that lead them down the whole path to purchasing all kinds of other illegal products, underground products and smuggling products? How do we find that appropriate balance? Or maybe the problem is, how do we remessage that back to individuals and say we still need to maintain this high tax policy and need to understand that because of the other benefits, the health benefits, and the economic costs of addiction to cigarettes and inappropriate use of alcohol etc? How do we send out the right message to the

average person who does smoke and wants their cheap cigarettes?

1130

Mr Taylor: In the economic times such as we live in, obviously that is a hard sell. One of the reasons for my far from subtle approach to this meeting, in trying to position the whole issue in the context of public health, was in effect to provide a model which you might choose to apply to your own approach.

One of the things that needs to happen through the work of my own agency, and government as a whole, for that matter, is to remind people of the health consequences of various forms of substance use or abuse and to remind them that taxes are there in part to protect them, because the laws of economics of supply and demand—demand depending on how much a thing costs, in major part—respond just the same way to drugs as they do to any other product. If the price is high, demand is kept low.

In effect, there is a complex sell required to remind people of the health and social problems that are attendant on these behaviours and to remind them that the taxes are in place not simply because we have an economic problem; they are in place because they have been designed to reduce demand and therefore to reduce the toll we all pay for using these substances.

Mr Sutherland: But don't you think most people take a personal economic view of this until it affects them personally, until they see some of the health side-effects or whatever; that the personal straight economics of being able to get cigarettes or alcohol cheaply outweigh those perceived potential health risks or societal risks?

Mr Taylor: Each of us is an individual and has his or her own sticking point. For example, I indicated in an earlier comment to Mrs Caplan that my personal view was that we probably reached that watershed between taxation as a public health means and the attendant illegal activity, such that probably it was a reasonable matter of public policy—not for me to make, thank heavens; that's the kind of judgement of Solomon that you have to make—to tilt the balance back a little bit, not by reducing taxes but by at least leaving them be a little bit until the illegality issue has been dealt with, but that there are ways of dealing with that which are not tax-based. Once that's under control, my sense is that the taxes should be ratcheted up again.

Now, that's a personal interpretation. Getting that across to the public is a complex message. We had a lot of trouble with this presentation precisely because it is a very complex area. We've tried to drive in on the essential point, to ask you to bear in mind that what you do does not simply affect revenues; it affects the health, in many senses, of the public.

Dr Ferrence: Can I just add to that? On the issue you raise, I think what we can do in terms of education is very limited. We have to rely on market forces. A very good example is with cross-border shopping: Now that the value of the dollar's changed, it's not hitting the headlines any more; it's becoming much less of a problem. We have to have faith that the same thing will

happen if we implement the appropriate measures.

Most smokers want to quit smoking; something like 80% want to quit, so there is that motivation in the other direction, aside from getting them cheap. Also, many European countries have higher taxes than Canada does, so it's keeping the faith that we're in the right position rather than what you read in the press about it.

Mr Drummond White (Durham Centre): I was quite interested in your presentation and I do have a few questions. I'd like to hold to the issue of course of taxation and tobacco use primarily. The incidence of tobacco consumption here is at 27%. In the United States it's at what level?

Dr Ferrence: It's at a similar level in the United States at this point.

Mr White: So it's 27% here and it's at a similar level in the United States even though their taxes and the cost of tobacco is that much lower?

Dr Ferrence: Yes. That may sound surprising. The reason is that, historically, smoking started earlier in the United States than here and people started quitting earlier; the access to public information about smoking and so forth. What we have found is that their rate started to decline before ours. That's just looking at the prevalence of smoking. The actual number of cigarettes smoked per capita is now lower in Canada. When you look at a graph of per capita consumption you see a crossover a few years ago, where Canada went from being higher than the US to being lower, so we can't just look at prevalence figures.

Mr White: How much lower in actual consumption of cigarettes? I imagine that's a more significant factor. If I smoke five cigarettes a day, my risk of lung cancer is much less than that of someone who's smoking 20 cigarettes a day. That's really a more effective measurement, isn't it? How much lower is that?

Dr Ferrence: I don't have the exact data with me. It's certainly a few thousand per capita per year. Also, you have to look at long-term trends. As I said, what you see is an earlier decline in the US among both adults and young people, but these have levelled off now, whereas with the Canadian tax policy they have still continued to decline. You have to look at it relative to our history.

Mr White: You mention a significant relationship or change in terms of the tax policy having perhaps affected it, and Lord knows what the social milieu is and what particular effect it might have. But there's a difference in terms of consumption or proportion of smokers relative to social class and gender. I'm wondering if you could reflect upon the issue of class.

Dr Ferrence: What happened historically is that the first people to take up cigarette smoking were professionals, wealthy people, people living in big cities. This is a process that happens with many products and tobacco's not unique in that way. Because we're getting towards what we hope is the end of tobacco use, certainly the period of decline, what happens is that there's a diffusion process. The first people to quit are the people with the most education, the most contact with public health information and so forth. The people who are left

smoking tend to be those with less education, lower income and so forth, but their rates are also declining, so it doesn't mean they're not getting any messages at all.

Mr White: I guess that flies in the face of the argument that those people who have the least income, ie, adolescents and working people whose income is less—and I imagine your definition of class is probably defined by income level as opposed to workplace; certainly that was my experience of your research in the past. What you're saying is that those people who are least susceptible, who have the largest disposable income, are the ones who are being affected the most by tax increases.

Dr Ferrence: It sounds as if it would be that way. Actually, education level is much more important than income as a measure of this, but as I mentioned, rates of smoking among lower-social-class people are declining as well. It's just that they're declining later in history, so that's why they're higher at this point. It doesn't at all mean they're not susceptible.

Mr White: I'm not saying they're not susceptible; I'm sure they are. But if one looks at it, we have had an increase in taxation and the effect has been not upon those people who are most vulnerable—ie, the working-class people, people on welfare or lower-income levels—but, if we were measuring that one variable alone, the effect has been on those people who should be least vulnerable. The argument about taxes causing a barrier to tobacco consumption and therefore reducing consumption isn't borne out by the evidence. I'm wondering about other policies that might have that effect of reducing consumption, rather than regressive taxation.

1140

Dr Ferrence: The big decreases in consumption among people with higher education occurred in the 1960s and 1970s, before we had the big tax increases. What's happened since the early 1980s when the tax increases became quite sizeable is that we've had a very large decrease among adolescents, who are more price sensitive, so we certainly have that, and we are getting increasing decreases among those who have low incomes. There certainly is an effect. If you look historically over the past 30 years, the earlier effect had more to do with public education, which affected people with more education.

Mr White: So public education more than taxation has had the positive effect.

Dr Ferrence: I think it's a combination of both. The biggest decreases in young people have been since the taxes have been increased. Cigarettes are still relatively inexpensive. If they were \$20 a pack, we would see much larger decreases in smoking. Even though the prices are so much higher than the US, because the demand for cigarettes is still relatively inelastic, which means that for a 1% increase in price there's less than a 1% decrease in use, it suggests we certainly are nowhere near the level at which we're going to get really sizeable effects of tax increases, but the tax increases are clearly having an important effect.

Mr White: At the moment with smoking prevalences, what we're talking about is predominantly what's referred

to as regressive tax, a tax which affects those people least able to bear the tax.

Dr Ferrence: It is a regressive tax, but poor people can still afford cigarettes. If you compare it with Third World countries, where there are some people who spend half their income on cigarettes, cigarettes are still relatively cheap in Canada.

Mrs Haslam: Two quick questions. You talked about a saturation point. What do you see as the saturation point of taxes on cigarettes versus the equivalent of finally not smoking? Will there ever be a saturation point, and what is that?

Mr Taylor: I'm not sure I've understood the question fully.

Mrs Haslam: You're talking about taxes, that as taxes go up, cigarette smoking comes down. Ms Caplan was talking about the same situation a few minutes ago, and you were saying, "We're not there yet." I'm saying, what do you see is the saturation point? How far can you tax before it no longer has an effect on the amount of smoking or the number of people who choose to smoke?

Mr Taylor: I don't know if that's an answerable question, but it seems to me that as a statement of principle, we're a long way from it. What we have is a particular confusing factor at the moment, and that is an artefact of a market where there's a huge price disparity across a border so there's a lot of smuggling, so it may be time to call a pause to the escalation based on taxes, but note the word "pause."

Once that problem is reasonably resolved, I know of no evidence—my colleagues may—that says there is a saturation level at any reasonably foreseeable point. Quite the reverse: I would suggest that eventually, if the price becomes infinity, the demand becomes zero, so to speak, if there's no other way of getting the product. Now, push it up so high that you again induce some illegal means of supply and then again you've got sort of a ratchet to work against.

But if you accept the thesis in the case of tobacco that there is really no redeeming social virtue to it at all, that it's just a bad habit which some of us have or have had, it seems to me that basically you keep pulling the tax lever until such time as the last smoker quits. But I'm not sure there is any particular evidence that there is ever a point of complete diminished returns once smuggling or underground markets are held in check.

Mrs Haslam: One quick clarification and then I'll be done, Mr Chair. I was under the impression, and it was always a concern to me, that the evidence was that among young people smoking, young women were at a higher percentage and were increasing at a rate higher than young men. Am I clear that that is not correct any more? Is that what you said?

Dr Ferrence: There's been so much confusing evidence about what's happening with young women and young men smoking. Some of it, I think, has been fuelled by concern for getting more programs for women and more emphasis on women smoking. There has been a real neglect in the past, so I think that's an important thing that's been happening. In Ontario, there is almost no

difference between the rates of current smoking among young males and young females. Young girls are more likely to be occasional smokers than young males, but when you look at daily smoking, it's not higher for young females, and when you look at half-a-pack-a-day smoking, it's higher for young males.

Mrs Haslam: That's fine. That's the clarification I was looking for.

Dr Ferrence: It's not to minimize the problem. It's a serious problem, and it's certainly equal to young males.

Mrs Haslam: No, I'm very concerned about smoking. I'm very concerned about the incidence of smoking by young people, and I'm very concerned about the increase again in smoking by young people. I had always talked about young women and I had seen facts and figures on it. Some of the reasons were asinine for why young women smoked more than young men, in that young men hung around young women because they borrowed cigarettes. Some of the information was just phenomenal, and now I'm hearing from you that it's on a more level basis between the sexes at a young age. I'm very concerned, period, about the young people and the incidence of them starting smoking and the percentage who are continuing to start to smoke; that's all. Thank you.

The Chair: Thank you very much. I'd like to thank the representatives of the Addiction Research Foundation for making the presentation before the committee today. Thank you very much.

Before we recess, I'd like to let the committee members know that apparently we have a vote following routine proceedings today and we do have a full slate this afternoon, so if you would be so kind as to be here as promptly as possible it would be appreciated.

Mrs Caplan: So there's no subcommittee now?

The Chair: No subcommittee now. We will have one this afternoon. This committee stands recessed until 3:30 this afternoon.

The committee recessed from 1147 to 1547.

The Chair: The standing committee on finance and economic affairs will come to order. We will continue our deliberations on the underground economy.

Our first presenter this afternoon is Mr John Ronson, representing the Canadian Cancer Society, Ontario division. Welcome to the committee, Mr Ronson.

Mrs Caplan: Point of order—

The Chair: Please make yourself comfortable, and when you are comfortable, you may proceed, except I'm going to deal with Ms Caplan's point of order.

Mrs Caplan: On a point of order, Mr Chair: I have a question, really, but it is a point of order legitimately. When the committee adjourned just before noon—

The Chair: Recessed.

Mrs Caplan: —recessed, you said there was going to be a vote at the committee immediately following routine proceedings.

The Chair: No. I said there was going to be a vote in the House immediately following routine proceedings.

Mrs Caplan: Thank you for the clarification. I

thought there was another vote here on something. I couldn't figure out on what.

The Chair: I'm sorry I didn't make myself clearer with regard to that.

Mrs Caplan: I'm glad to know that's been cleared up.

Mr W. Donald Cousens (Markham): It's a good way to get the member for Oriole out to a meeting.

Mrs Caplan: I always like to be there for the vote.

The Chair: Anyway, we'll come to order and allow Mr Ronson to immediately proceed with his presentation.

CANADIAN CANCER SOCIETY
(ONTARIO DIVISION)

Mr John Ronson: I believe copies of my submission on behalf of the Canadian Cancer Society, Ontario division, and also the Ontario Campaign for Action on Tobacco have been distributed. I'd like to go through this submission and perhaps supplement it in a couple of places. I should say that—

The Chair: Please carry on. The members from time to time will wave their hands at me, indicating they'd like to be on the list of questioners.

Mr Phillips: Mr Chairman, that's not why I'm raising my hand. Sorry, Mr Ronson. We're starting at 10 minutes to 4. Have we a schedule of time, just so our speakers and ourselves know whether we're going to stick to this?

The Chair: Well, if we take 45 minutes for each presentation, we will actually be going a little beyond 6. So I'll shave about a minute, I guess, off each presentation and question period, and we should be able to allow everyone time.

Mr Phillips: So we'll spend 40 minutes with each.

The Chair: Well, 40 to 45, yes.

Sorry about that, Mr Ronson. Please continue.

Mr Ronson: That's okay. Just to introduce myself, I am a volunteer with the Canadian Cancer Society. As a representative of the cancer society, I also chair a coalition which I've introduced, the Ontario Campaign for Action on Tobacco, again in a voluntary capacity. As you may know, it is a group made up of a number of health organizations, including the Ontario Medical Association, the Heart and Stroke Foundation of Canada, the Lung Association, the cancer society and the Non-Smokers' Rights Association.

To move, then, to the presentation: In recent years there's been a dramatic rise in tobacco smuggling, and this tax evasion is harming the objectives, both health and fiscal, of increased tobacco taxation.

As you've probably heard, almost all contraband tobacco is manufactured in Canada, exported to the United States and smuggled back to Canada. That's largely because Canadians don't like American cigarettes. So they smoke Canadian cigarettes. Even if they go to the United States, if they're snowbirds, they tend to buy Canadian cigarettes when they're in the United States.

The large tobacco tax increases by federal and provincial governments during the 1980s and also in 1990-91 made tobacco products less affordable, which dramatically decreased consumption, especially among children and

adolescents. I know that you already heard last week from David Sweanor and he handed out some graphs. I'm not sure if he gave you a copy of his article, but I arranged to have your clerk distribute that as well, which has some graphs in it that show the relationship between tobacco taxes and consumption. We're not suggesting that tobacco taxes are the only thing that's affecting consumption, but clearly there is a very dramatic relationship.

Total tobacco tax revenue collected in Canada by federal and provincial governments increased from \$2 billion in 1981 to \$7.2 billion in 1992. During that period, revenue increases occurred every year. This increase in revenue is all the more impressive, considering the unprecedented decrease in consumption which occurred during the same period. That decrease is estimated at approximately 40% over the last 10 years, which is one of the highest rates in the world.

Despite declines in overall market size, the tobacco industry earned record high profits in 1992 for the sixth straight year. This is attributable to manufacturers' price increases, which have increased by 74% since 1984. Our estimate is that tobacco companies in Canada earned more than \$100 million in 1992 in incremental profit from sales which ended up as contraband—in other words, that were exported from the country and returned as smuggled cigarettes.

While the tobacco industry claims that it is opposed to smuggling, industry activities are very much at the root of the problem. Companies have set up sister companies in the US and have made marketing deals with other American companies. The purpose is for Canadian companies to get a bigger share of the export market which ends up as contraband.

Tobacco smuggling is a serious problem and will require government intervention to end it. However, the industry has publicized the problem as part of its advocacy efforts to pressure governments to roll back tobacco taxes through industry front groups such as the Smokers' Freedom Society. When the federal government implemented an export tax on tobacco in February 1992 to curb smuggling, the industry successfully lobbied the government to repeal the tax only two months later. The tax, during the brief time that it was in place, was extremely effective and that is undoubtedly the reason for the massive lobbying of the federal government that took place and led ultimately to the rollback of that tax. In return for that repeal, the industry promised to cooperate to control smuggling. But instead, smuggling has only increased.

Reducing taxes is the wrong response to the smuggling problem. This would reverse the enormous health benefits achieved through higher taxes and increase the incidence of disease and death caused by tobacco industry products. I'm not sure whether you have this report, but this is the report of our chief medical officer of health for Ontario, which very clearly documents the health effects of tobacco. If we can get consumption down and if we can get people to stop, we know that the health effects over time will be dramatic. Of course, it would also decrease the amount of revenue collected by the federal and provincial governments.

I notice that your clerk also handed out a copy of this clipping from the *Globe and Mail* this morning on Quebec's position. I just think their guy's right out to lunch. With a cut of that magnitude he may decrease the differential in terms of the difference between the price of smuggled cigarettes and the price at retail, but he's not going to get his revenue back, because the differential will still be significant. The smuggling's going to continue and his revenue's going to drop. This must be new mathematics or something, because I have no idea what the Quebec Revenue minister is doing.

In terms of what needs to be done, first on taxes, in our submission, federal and provincial governments should encourage US federal and state governments to increase their tobacco taxes. This would be the most effective way to curb smuggling. President Clinton has announced that an increase of US\$1 per pack—that is \$10 a carton—is expected to help pay for health care reform, and certainly from a healthy public policy standpoint here in Ontario we can only hope that increase goes through Congress.

Within Canada, governments should focus on the source of the problem, namely, Canadian tobacco companies that supply the products which end up as contraband. The federal government should reimpose the export tax to increase the cost of tobacco from Canadian manufacturers to the smuggler. The government could consider refunding the export tax when there is proof that tobacco went to a legitimate market. Alternatively, exports should be limited or prohibited altogether.

All provincial governments should have agreements with the federal government to ensure that provincial tobacco taxes are collected at the Canada-US border by federal customs officials.

I'd also like to talk to you about the proposed Ontario tobacco act. Despite the fact that the federal government has at its disposal the most effective tools for controlling tobacco smuggling, provincial governments in Canada do have access to measures which could significantly decrease the trade in illegal cigarettes and reduce this threat to law, order and public health. In Ontario, the proposed Ontario tobacco act, which has been much promised but not yet introduced, in conjunction with rigorous enforcement has significant potential to reduce smuggling of tobacco products into the province.

Just to deal with the specific items under that: implement prominent markings on cigarette packages. Clear markings on legal cigarettes indicating that taxes have been paid would make contraband cigarettes less attractive to retailers. These tax-paid markings would also assist enforcement of anti-smuggling laws, discourage consumers from purchasing unmarked contraband cigarettes and provide evidence for law enforcement officers.

Plain packs: The Ontario tobacco act could also influence cigarette packaging by requiring that cigarettes in Ontario be sold in plain packs, which would be most easily distinguished from those sold elsewhere or by requiring prominent health warnings in addition to the proposed federal warnings, which would also distinguish cigarettes manufactured for legal sale in Ontario from those manufactured and smuggled.

License tobacco retailers: Retailers whose licences to sell tobacco products could be revoked would be much more likely to resist the temptation of profiting from illegal traffic in cigarettes. Like the Ontario Liquor Licence Board, the Ontario government could set up a licensing body for retailers of tobacco products. This body could be self-financing by licence fees and be responsible for monitoring and enforcing the terms of licences.

Reduce the number of tobacco retailers: If tobacco products are removed from pharmacies, health care facilities and educational facilities and if remaining vending machines are banned, the number of legitimate sales outlets for tobacco will be reduced. This will enable increased enforcement of existing tobacco control laws on remaining tobacco product retailers, such as grocery and variety stores.

Reduce demand for tobacco: Tobacco smuggling, of course, is only profitable so long as there are smokers who demand the product. The introduction of the Ontario tobacco act as part of a comprehensive tobacco control strategy will reduce the number of smokers in Ontario, particularly children and adolescents who are most attracted by the low price of smuggled cigarettes, and ultimately decrease demand for cigarettes, whether sold legally or illegally, because we know that if people don't start smoking by the time they're about 19, they aren't likely to start at all.

An Ontario tobacco act would also serve as an example to governments elsewhere. In several US border states, for example, New York and Michigan, state governments attempting to raise taxes on tobacco industry products could use moral and technical support in their fight. Ontario can provide the benefit of its experience with higher taxes to support similar taxes in the US. When taxes rise in the United States, of course, smuggling to Canada will decrease because the profit element will be reduced, if not eliminated.

By passing the act, the government of Ontario can be assured that not only is it doing everything in its power to control tobacco consumption and reduce smuggling, but that by example it is encouraging other provincial governments, the Canadian federal government and US federal and state governments to respond responsively to the tobacco epidemic and the threat of cheap and illegal tobacco products in their own jurisdictions.

Finally, or second to last on enforcement, the allocation of resources to enforcement should be increased. The cost of added resources can pay for itself through fines from increased prosecutions, from the sale of seized vehicles and from reduced smuggling. Sales tax inspectors should be trained to be on the lookout for contraband.

Indian reserves across the country are important contraband distribution points, often selling contraband openly, as is indicated by this *Globe and Mail* article today. Effective enforcement on reserves is required.

Penalties for smugglers should be increased, depending on the jurisdiction. A smuggler can't re-offend if he or she is in jail. Prosecutions against smugglers could also be taken for failing to have the necessary health warnings

or labelling or for advertising tobacco. Smugglers should be prosecuted under both federal and provincial legislation when contraband is intercepted.

Finally, we would plead that governments increase their consultation with health and tobacco control organizations when considering anti-smuggling measures. When implementing new provisions, there should be less acquiescence to the tobacco industry and faster action.

1600

In summary, I would make two points. First, a tax rollback would be a disaster. It would be both a health policy disaster and a fiscal policy disaster. Second, as I've emphasized in my presentation, there are workable alternatives to a tax rollback, as I've outlined.

I'd be pleased to answer questions from members of the committee.

The Chair: Thank you very much, Mr Ronson. We have about 30 minutes, maybe a little less than that. We'll start with Mr Phillips. I'll divide the time evenly, of course, between caucuses.

Mr Phillips: Thank you for the presentation, Mr Ronson. We're trying to do many things with this committee. The first is to try and get some idea of the magnitude of the issue.

I listened to the brief. I'm not sure there's any indication in the brief from your organization of how big you think this issue is. You show revenue going from \$2 billion to \$7.2 billion, which on the face of it kind of looks like there isn't a lot of smuggling going on if revenue keeps going up. On the other hand, I think the Ontario revenue from tobacco tax peaked in 1991-92 and is heading down.

The purpose of all this is, can you give us any thought on what you would have thought would have been the revenue in Canada or in Ontario without smuggling and the implications for the revenue of smuggling?

Mr Ronson: At best I could give you an educated guess, but the problem is enormous. We're talking hundreds of millions of dollars, we believe, in lost revenue. Frankly, you're probably privy to better statistics, through your Finance people, than we are, but I don't think the problem can be underestimated. It's a very, very large problem and appears to be increasing rather than decreasing. I'm sorry I can't be more specific.

Mr Phillips: That's fine. You've no doubt seen the study funded, I think, by the tobacco industry.

Mr Ronson: The Lindquist study?

Mr Phillips: Yes.

Mr Ronson: Yes, I'm familiar with that study.

Mr Phillips: That I think indicated, in their opinion, that in Canada one out of six packs was here illegally.

Mr Ronson: That's their estimate, although my understanding, if we're talking about the original study, is that after communication between the Non-Smokers' Rights Association and the authors of the study, they reduced their estimate of the impact of smuggling by a considerable degree because they agreed that their methodology was not entirely accurate.

But having said that, there's no question it's a big

problem. Our perception, and I must say it's only a perception, is that the problem is largest in the province of Quebec, but it's a very large problem in Ontario as well, less of a problem in western Canada and a significant problem in Atlantic Canada as well, both coming across the border and also because of Saint Pierre and Miquelon and its relationship to Newfoundland.

Mr Phillips: I'm not sure whether the study was amended before they reported the one out of six or after they reported one out of six.

Mr Ronson: I could check on that for you.

Mr Sutherland: I think it was after; I think the one out of six was what they were using publicly.

Mr Phillips: Then they've downgraded that some.

Mr Sutherland: They must have, yes.

Mr Phillips: As I say, we find the range of estimates fairly large. You mentioned just briefly the Quebec experience. There's a report today that you've seen, I know.

Mr Ronson: Yes, I have it in front of me.

Mr Phillips: You mentioned it. What's your feeling on that approach? I know you talked about taxes, but is that something that's likely to happen?

Mr Ronson: I think it's anyone's guess. I don't know what the views of the new Liberal administration in Ottawa will be, whether they'll be supportive. I think the federal Conservatives generally appeared to have bought into the idea of using taxation policy as a healthy public policy mechanism, and I think to their credit. Whether the Liberals will continue that it's too early to tell, but I think it's worrisome, although I would hope that the federal Finance people in the department will say this doesn't make any sense, because as I said in my presentation, you have to eliminate the differential, or effectively eliminate it or come close enough that there's no significant margin for the smuggler, or you haven't solved the problem.

If your smuggling doesn't decrease but you decrease your taxes, you're not only decreasing the taxes on the stuff that's going out and coming back, but you're decreasing the taxes—there's no tax on that. But on the legitimate portion, which even under the tobacco industry's estimate is still five sixths of the market, you've decreased the taxes as well. When from a fiscal standpoint we're looking at significant deficit situations both at the provincial level and at the federal level, it doesn't make any sense.

Mr Phillips: Have you any advice for us on the impact on smoking, just hypothetically, saying taxes were reduced? Is there any correlation between price and smoking? Believe me, I'm not advocating that; I'm just saying it would be helpful for the committee if there is any evidence of that.

Mr Ronson: There is, actually. The study is a little bit dated now and it's not entirely clear whether the relationship still applies, but there was a study done—and I'd be happy to provide you with a copy of it—on the relationship between price and consumption.

You have to be careful to distinguish between what's

called consumption and prevalence. In other words, someone may continue to smoke, but they may smoke less or somebody may quit and that means they don't smoke at all. This one measured consumption, which both measures people who quit altogether and also measures people who may just cut down on the amount they're smoking as a result of price increases. The study, which was done out of Michigan, estimated that for every 10% you increase the retail price, your consumption will drop by about 4%. They also estimated that among teenagers, who are particularly price sensitive—they don't have a lot of disposable income—for every 10% you increase the price, the consumption will drop by about 14%. At some point, that 14%—

Mr Phillips: A \$1-million pack.

Mr Ronson: Yes, that's right. At some point, that 14% is going to plateau or whatever, but there clearly was a relationship, and if you look at the graph in David Sweanor's article I handed out, you can see the relationship. We're not suggesting that's the only factor driving the relationship. Clearly, public education and passage of non-smoking bylaws by the government have an impact as well, but there's no question that tobacco's no different than any other product in that respect: If you raise the price of a product, generally speaking, people will use less of it.

The Chair: Mr Kwinter, we have about two minutes.

Mr Monte Kwinter (Wilson Heights): If I could just get a comment from you, it would seem to me that taxation would have a direct correlation to entry-level smokers, that if the price is too high, there's a disincentive to get involved.

Mr Ronson: Correct.

Mr Kwinter: What do your studies show about committed smokers, addicted smokers? It would seem to me that the government policy has always been that it looks at cigarettes not as a health issue but as a revenue issue. How does the tax impact on those smokers?

Mr Ronson: I think in one of two ways. I think government increasingly does look at it both as a fiscal issue and as a health policy issue. I think the Treasurer certainly characterized it as both a fiscal and a health policy issue in his 1991 budget, as did—what was his name; how quickly we forget—Mr Wilson in his federal budget, when he increased prices by \$2 a carton.

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But to your question, a really addicted smoker may simply have to absorb the increase because of the addiction, or may cut back. The research suggests that often it's a trigger point that causes people ultimately to quit smoking, or they may try several times and fail and fail and fail, but it will be a trigger point and the trigger point could be a tax increase and they say, "That's it, I'm not prepared to pay \$5 a pack for cigarettes," or it could be their workplace goes smoke-free, for example. So a tax increase can serve as one of several types of trigger points that cause people once again to attempt to quit or to finally succeed in quitting. I don't know; does that answer your question?

Mr Kwinter: Yes.

Mr Carr: Thank you very much for your presentation. Let me start with this question: Would you be able to break down what the cost of smoking would be to the health care system in the province of Ontario?

Mr Ronson: I could try and get you a number for that. The number, I can tell you, is enormous. It's in the billions of dollars, and I wouldn't want to be quoted on this, but I think the estimates are somewhere between \$3 billion and \$4 billion, although it may be more.

A reasonably heavy smoker, the evidence suggests, loses about 15 years of life as a result of the habit. This of course is statistics; you can't apply this to any one individual. But someone who would otherwise live to be 75 might die at 60, for example. If you look at specific diseases, lung cancer, for example, and the cost of treating lung cancer is very significant, but if you get it, 90% of people who get lung cancer are dead within five years after they get it because all the treatment really is doing is keeping you alive a little bit longer. It's very expensive to treat people who have lung cancer.

One of the largest costs which a lot of people, certainly the general public, don't even recognize is in heart disease and stroke. It's the largest preventable cause of heart disease and stroke. Our hospital system spends hundreds of millions of dollars on the treatment of people with heart disease and stroke. Some people say they're going to die anyway. I don't know about you, but I'd rather die at 80 than at 65.

Mr Carr: You should try to avoid it if at all possible.

Mr Ronson: Exactly; I think particularly with young children. Teenagers think they're invincible. My oldest is about to become a teenager; she's close to it. Kids at that age don't think about health risks, and yet the vast majority of people who get addicted to cigarettes get addicted when they're teens.

Mr Carr: Isn't it true, though, on page 3, that some of your recommendations of what you want to do, it would seem to me, are not going to have much of an impact in stopping people anyway?

Mr Ronson: Which ones in particular?

Mr Carr: All three. You know, if you implement the prominent marking, and most people know about that, the plain pack; license tobacco retailers; cut down the number of tobacco retailers.

Mr Ronson: I agree; some of those things won't.

Mr Carr: If all this was brought in, how much do you see it being reduced? Can you give us percentage terms?

Mr Ronson: It's difficult to single out any one item and put a percentage beside it because, as I said in answer to Mr Kwinter's question, you can't isolate any specific factor and say, "That was it." It's like, what's the trigger point to convince someone ultimately to quit smoking? But in terms of plain packs and markings, plain packs and those things are not aimed specifically at getting people to quit. They would be aimed at making it easier for enforcement people to identify that a particular package was in fact smuggled. It would also, at retail, tell a customer exactly that this pack is not a pack that has had tax paid and might discourage at least some people

from making the decision to buy a package of smuggled cigarettes.

Mr White: I'm very impressed with your presentation. We did several in regard to the issue of cigarette smuggling and the issue, frankly, of sales of uncut tobacco. The main means by which you suggest that revenues can be secured in regard to the cigarette taxes is through the federal export tax and through the American states which are bordering on us increasing their taxes.

Mr Ronson: That's correct.

Mr White: They aren't of course issues which we have any direct control over.

Frankly, I found it very striking last spring that the federal government so easily succumbed to the influence of the tobacco lobby. It was probably less than coincidental that the president of that lobby happened to be a prominent member of their government party. I hope that federal export tax will come in again and will secure revenues and of course the very issues you're concerned about. Is the Canadian Cancer Society lobbying the new federal government?

Mr Ronson: We absolutely are. It's a bit of a new move for health charities, but I'll share with the committee that both the Heart and Stroke Foundation of Canada and the cancer society nationally each has full-time people in Ottawa working not just on tobacco but on other issues of interest to our organizations.

For both the heart and stroke foundation and the cancer society, tobacco is our number one issue and we are lobbying very hard both to maintain the levels of taxation to fight the kind of thing that Quebec is proposing and to have the export tax put in, because, as you point out, Ontario has no direct ability to influence either of those things, except through interprovincial, I suppose, and international discussions.

It's really protecting your revenue base as well, because one of the reasons you've suffered an erosion here in Ontario is that if that export tax were in place, you would not be suffering the same fiscal erosion of the provincial tax portion of the price of a package of cigarettes.

Mr White: So you are lobbying very strongly—

Mr Ronson: Very strongly.

Mr White: —to reinstate the export tax, and you're hoping the new federal government will respond positively in the interests of Canadians.

Mr Ronson: Indeed, and indeed in the province of Quebec we are lobbying very strongly at the provincial level to fight against the kind of move that the Revenue minister is reported to have announced in today's *Globe and Mail*.

Mr White: In today's *Globe and Mail*, if I can refer you to that again—I will attempt to be brief, Mr Chair—obviously here not only is it the Revenue minister, and Quebec I understand has the highest level of tobacco consumption and prevalence of smokers in the country.

Mr Ronson: That's correct.

Mr White: I'm sure it would be very popular for

them to do away with cigarette taxes, and they're of course going into a provincial election. They probably want to secure that support. This would be something which would require the agreement of the federal government too, wouldn't it? If they were to cave in here, they would have to cave in across the country.

Mr Ronson: That's correct. Well, let me be clear. The province can control its portion of the tobacco tax. What M. Savoie is saying is that he won't reduce it unless the feds also agree to reduce it by an equivalent amount. But if he wanted to—you'll see from the little pie chart there—he has sufficient tax revenue that he could take \$1.50 off by himself. I've said that I don't think it's a smart move. I think what he's doing is dumb. It would be really dumb for him to take the \$1.50 all himself, because Quebec is in a significant deficit situation as well.

Mr White: Sure. But the thing is, if he were to take 75 cents off the federal tax, that would have to come across the board.

Mr Ronson: Yes, right.

Mr Sutherland: Mr Ronson, I appreciate your presentation. Everyone's well aware of the excellent work the cancer society has done and continues to do. We had the Addiction Research Foundation in this morning. They made a presentation and talked about some of the similar issues you have raised, but I want to ask you the same question I asked them, and that is, I think most people understand the health risks associated with smoking, alcohol etc, that type of thing, and the use, and you mentioned young people feeling that invincibility.

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I get a sense that a lot of people, individually, not only young people but adults, feel that same degree of invincibility. As much as you can say that the health risks are there, they shouldn't be smoking etc, until it actually has a real impact on them as an individual, economic considerations are going to take precedence. If they're smoking or if they're doing other types of activities, they're going to want to get the lowest price, ie, smuggled cigarettes for that.

The reason for having groups like yours here is in that context and how starting those smuggling patterns and those routes may lead to more extensive underground economic activities: If they can get smuggled cigarettes, then they'll want other smuggled goods. "How do you justify the high taxes?" is what many people would ask. Many individuals would say that despite all the health evidence and whatever, if people are getting this much involved in using smuggled cigarettes and other parts of the underground economy, how do you continue to maintain high taxes?

Mr Ronson: It would be more difficult to maintain if there wasn't a way to solve the problem, but I think I've suggested a number of ways in which the problem could be solved without lowering taxes. As I discussed with Mr Carr, the evidence in terms of the health effects is, as you said, pretty well documented. "When we've got something that's working so well, both as a fiscal policy when we've got a big deficit and as good health policy, why

wouldn't we try to protect it?" would be my rhetorical response to your question.

Mr George Dadamo (Windsor-Sandwich): Tomorrow will be two years since I gave up smoking, so I feel really good about that.

Mr Ronson: Congratulations.

Mr Dadamo: Thank you very much. I had tried many, many times, like everybody else, to give it up and was not successful, but I guess it took a trip through the Metropolitan General Hospital cancer clinic. John Connors took me through and explained to me that every Monday morning they get, on average, about six new cancer problems, whether they're lung cancer or whatever it happens to be.

My father died of lung cancer in 1979. You'd think I would have been bright enough to give it up then, but I didn't. But now I'm 40 and non-smoking. I feel good about that.

Mr Ronson: Good for you.

Mr Dadamo: It's a good thing we don't have television ads that pollute the airwaves with cigarette commercials. That's a saving grace, I suppose. But I guess we have to spend that time in educating kids that it's not cool to smoke any more at 13 and 14 years old, and I think you're right, that if they reach 19 or 20, they're adult enough to think they're not going to smoke at all. What are the suggestions for educating these kids not to start up and put those cigarettes in their mouths at all?

Mr Ronson: It's difficult. I remember a discussion actually with Mrs Haslam in her office about this very issue and talking about her teenagers and the issue.

One of the things we're looking at right now, in fact we expect to have research released probably before the new year, the cancer society has funded a study on plain packs, the idea of having a package with none of the fancy pastel colours that appeal to teenage girls, for example, or the macho colours that appeal to teenage boys, and whether plain packs are a turn-off for teenagers. Our preliminary indication is that in fact they're a significant turn-off.

You used the word "cool," and I think that's exactly how teenagers view it. The economic stuff like the tobacco tax is important, but it's not the only way. We have to look at ways so that kids don't find it cool any more.

Another thing that seems to be working through some research that the cancer society has done is some of these peer programs—and they're not just applicable to tobacco, they're applicable to drugs and alcohol and other things—which teach teenagers how to resist peer pressure and how to deal with it. Everyone is susceptible to peer pressure, but I think we all know that teens in particular are susceptible to peer pressure.

I think, frankly, one of the things we're most discouraged about at the cancer society is the number of young teenage women, girls, who are smoking.

The Chair: Thank you very much for making your presentation before the committee today. You have a question? Mrs Haslam, I think our time has expired.

Mrs Haslam: I'm always late.

The Chair: I understand that you have had the opportunity to speak with Mr Ronson at length in your office, as he indicated. Anyway, thank you very much, Mr Ronson, for making your presentation before the committee today.

Mr Ronson: You're welcome. Thank you.

JACK M. MINTZ

The Chair: Our next presenter before the committee today is Mr Jack Mintz, if you would please come forward, sir. Make yourself comfortable. I understand you're representing the University of Toronto. Is that correct?

Mr Jack M. Mintz: That's correct.

The Chair: Whenever you're comfortable and ready, you may proceed.

Mr Mintz: First of all, I want to thank the committee that invited me to make this presentation. When I was asked if I would talk about the underground economy I wasn't quite sure whether you viewed me as a participant in the underground economy. I can assure you I'm not. Especially when you're salaried at the university, you know you're not part of the underground economy.

My background is that I've been very much involved in tax policy, not only in terms of the theory of tax policy, but in terms of application of policy. I've dealt with and consulted with a number of governments. Actually, this is the first opportunity I've ever had to really think about some issues of the underground economy, so I wrote up a short, seven-page piece for this day. I don't often do that, but I was intrigued by the questions.

I'm not going to read it, but simply I want to raise a few points about tax policy issues that arise with respect to the underground economy. To do that I want to go through a few points which I think might be useful in outlining some of the issues that are involved with the underground economy.

One of the first points I wanted to raise was really what we mean by the underground economy. I think there's been a lot of confusion over the topic. In fact, probably there are several definitions that various people have and, when talking about the underground economy, some of the problem is maybe just trying to understand what people mean, exactly, by the concept of underground economy.

I'm going to use a particular definition which is different than maybe what most people might think of as the underground economy. I think most people think of the underground economy as when people would normally use market transactions that would be recorded with receipts, etc, they sort of try to hide their affairs by using cash or not report income etc, so they're trying to hide something they're doing. That might be a useful definition in terms of thinking about some of the public policy issues, but I don't think it's really comprehensive enough.

My feeling is that the way of thinking about underground economy is really to think of it in terms of what many experts like to deal with, especially when they go

to developing countries, that there are formal markets and informal markets. Formal markets would be transactions that are normally recorded. There would be receipts, there would be some way of trying to measure what people actually do. Then you have what one might think of as the informal economy where there may be no recorded transactions, no receipts, and just cash being used for transactions.

Recently I've been working with a number of countries but I've been down in Guyana. In Guyana you have just almost—a large portion of the retail sector is done on a cash basis. People drive with their trucks up to the market and they sell goods out of them. There are no receipts being issued, so you can imagine trying to have a retail sales tax in Guyana. It's just impossible, because the only firms that would be paying it are a few large retail stores, and if they had to charge retail sales tax on the goods they sell, they would get hammered by the informal market, which is so large.

I'd like to think of the underground economy really more in terms of the informal economy. That raises, actually, a very important point for policy purposes: you will always get in every economy, even in developed economies like ours, some cash transactions being undertaken. As a result, there'll be no receipts, no reporting of income and of course if you try to tax it for income tax purposes or for sales tax purposes, you're going to have trouble doing it.

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I'm sure just about everybody around this table has engaged babysitters, even teenagers, to look after children once in their lives. I did. I'm positive my 14-year-old babysitter who looked after my kids did not claim income for income tax purposes. I'm sure that we would not try to hit them hard for the fact—

Interjection.

Mrs Haslam: Mr Phillips wants the Treasurer to have the auditing service go after the 14-year-old babysitters, so Mr Phillips is requesting all their names and addresses.

Mr Mintz: Let me go on a few more. I'm sure some of us have gardens and I'm sure we don't declare the imputed income that we get from selling carrots and lettuce to ourselves, which is a form of income. We know that for tax policy purposes, we just don't try to tax every source of income like that. In other words, there are always bound to be some things that you can't get at from a tax point of view. One has to understand the underground economy in a sense as being a limitation on taxing powers. That's the way I like looking at the underground economy.

There are a number of factors that lead to why transactions could be cash, and there are economic factors. I wanted to raise a few of those because I think they're important to keep in mind.

First, in terms of developing economies, we get organizations that become big and as a result we have employees who are hired and there are clear transactions that are being done. As a result, these things are measurable, and so what you get in developed economies like Canada is the size of the informal market is very small.

Also, with the advent of computerization, we're starting to get even more recording of information; for example, what banks can supply. We've seen this through the income tax, where social insurance numbers now are required by banks for bank accounts. Of course, if the government wants to check whether people are reporting all their interest, it can simply run through the computer system a check on social insurance numbers and make sure that people are reporting their interest in that way.

This is all possible now with computerization. We wouldn't have been able to do this about 20 years ago. From my understanding of recently in the United States, this is exactly what they're moving to. They're developing a very sophisticated computerized system for the income tax in the United States and they will be able to use a lot of bank records for checking what people are claiming, because of the use of the taxpayer identification number in the United States, which is the same as the social insurance number. We can move and have moved in those directions as well.

There's another side of technology changes that I think is important, and I want to raise this because later on it's important in terms of saying something about policy, and that is that there have been changes in communications and transportation technologies, and these changes have allowed people to actually deal with many governments at one time. In other words, you can travel to another country, establish bank accounts, you can communicate quite easily with people in other countries, and what it means is that it's becoming more and more difficult for governments to administer taxes, because people can try to escape a tax system within a country by going abroad.

It also means that when you're talking about provinces and municipalities, they will feel even more constrained in terms of their tax administration because of the ease with which people can just go to other provinces. If you talk to anyone in the European Community, this is a very serious issue in the EC, where they have to deal with the treatment of capital income and people claiming income that they get from bank accounts. As is well known, Luxembourg doesn't tax these things very much. There are no withholding taxes in the European Community. It's very easy for a German citizen or for a Belgian to have a bank account in Luxembourg, earn interest and never declare it to authorities. Those kinds of problems are becoming increasingly important, which suggests that some types of tax bases are going to be more difficult for governments to handle. I'm going to get back to this issue at a later point.

These are what I call economic factors. There are other things that create the underground economy and these are the things which you're talking about. Clearly, there are things like laws and regulations that will affect the underground economy. If you have exchange controls, as in some countries, then you end up getting black markets in the trading of currencies, and these are ways of trying to avoid some laws and regulations.

The same thing can occur with all sorts of laws and regulations that we have to deal with, and some regulations actually end up discouraging the underground economy. For example, if someone wants to undertake a

certain profession he may have to be registered and then there's a certain amount of information that may have to be provided, as we've seen with banking legislation. As a result, the underground economy is actually curbed by the regulatory process.

The same thing on taxes. Taxes can discourage people from reporting income or reporting sales. There are lots of stories to talk about, such as the GST and the income tax. But also sometimes the tax system actually encourages people to become known whom the government wouldn't know about otherwise. For example, in Canada we have the refundable tax credit, which is actually quite a unique system compared to many countries throughout the world, and as a result we get just about the whole Canadian population filing for income tax. If you go to other countries, you'll see that one of the big problems they have is non-filers, people who don't file for income tax, and trying to find people to make sure that they do file for income tax. We have a system that actually encourages people to file, and as a result we have the people.

Let me run through just three quick policy issues.

What does the underground economy imply in terms of tax policy? First of all, high tax rates will create more of an underground economy, but it won't cause it for every kind of tax and every kind of base. You have to think through what kind of tax bases are going to be affected.

The taxes that are affected most by the underground economy are those that have to depend on self-assessment, where individuals assess how much they actually pay, such as under the income tax and the GST and even the retail sales tax to some degree.

It will also occur where it's easy to hide the information. The services sector is often one in which it's very easy to hide information because the goods are sold at the final point of sale, margins are big in terms of labour effort that goes into providing the service and it's easy to have a cash deal and not report the income. It's very difficult for the government to find out whether there has been a transaction made or not.

When you do have some areas of the tax system where there's a large underground economy, it does suggest that you may need to have tax policies where maybe lower taxes will have to be assessed in reaction to it, because otherwise, if the tax rates get too high, you end up getting such a large underground economy that maybe you're raising the revenues but people get discouraged by the size of the underground economy and it encourages other taxpayers not to comply with the system.

Another part of tax policy which is affected by the underground economy is tax administration. I think you've had a lot of discussion in the past—I saw some of the minutes of past meetings—but more improvements in tax administration can curb the underground economy. Here actually I'm quite positive about future trends, because I think with computerization and the kind of technologies we're developing, at least in terms of within Canada and Ontario, tax administration can be very successful in curbing the underground economy to some extent.

The third area where I think tax policy is very important in terms of how the underground economy is affected is to think about tax harmonization. It is more difficult for provinces, for example, to run the income tax system and try to administer it compared to the federal government, especially when it comes to capital income, where capital income could be easily hidden in other provinces.

It's also true that in terms of some taxes, such as the goods and services tax, where you have business-to-business transactions etc, some of these things are more difficult to run at lower-level governments than they are at the upper-level government. In fact, corporate income tax is usually one where most tax experts tend to argue it should be basically a federal responsibility, because it's very difficult for individual provinces to levy corporate income tax, given the way corporate income can be moved across jurisdictions very easily.

So when I bring in the tax harmonization argument, what I'm trying to say is that in Canada we've developed a very good system in terms of corporate and personal income tax harmonization where the federal government largely audits the tax on behalf of most provinces, except for Ontario, Quebec and Alberta. The provinces generally follow the federal base although they're allowed, through the agreements, to deviate to some extent. On top of it, we have a system where there's large exchange of information even by those provinces that handle their own corporate income tax. They exchange information with the federal government to try to make sure that the base is properly followed. On the personal income tax side, all provinces except Quebec have harmonized their tax systems.

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On the sales tax, we have less harmonization. That does raise an interesting issue about who should be levying the sales tax. I'm not as much concerned about the provincial sales, when it comes to the sales tax, and possibilities of tax evasion. My major concern is more with cross-border shopping with the United States and now the treatment of international services, which is getting to be more and more of a problem in terms of imposing sales taxes, including the GST as well as the provincial sales tax.

I would say that we could make some improvements in harmonization of sales taxes, and that could improve the administration of taxes. What I think it requires is the flexibility of both federal and provincial governments to try to put their minds together to develop a good sales tax system for Canada, one in which both governments could share the base in a way that allows for provincial autonomy but at the same time better administration of taxes and sharing of information between the governments. That could help curb some of the issues that come with the underground economy.

The Chair: Thank you very much for your presentation. We have about 25 minutes, I guess. Let's just start with Mr Sutherland.

Mr Sutherland: I have two questions. One, on page 6 of the written presentation you sent in, you did say, "When underground activity is significant for a specific tax, the tax rate must be kept low." You heard the end of

the previous presentation from the cancer society. I wondered if you had any comments on balancing that.

Also, on your comments about administration, I believe one of the other experts we're to have in is Satya Poddar. I believe he has suggested that one of the ways we may do that is that one level of government, and I believe he's proposed the federal government, should set sales tax and the provinces should set income taxes and that some type of arrangement should be made for that to occur. I was wondering if you had any comments on that type of system and whether you think that would have any substantial impact on reducing the amount of the underground economy.

Mr Mintz: Let me comment first on the cigarette issue. Revenues have gone up for the federal government, even with the very significant increase in taxes and the increase in smuggling, of which there's lots of evidence as well. In fact, there's a very good federal study by the Department of Finance which documents quite well the changes. It came out in June 1993 and documents well the impact of the increase in cigarette taxes on smuggling as well as revenues.

Whether the tax rate is too high or too low, those questions are judgements, of course. I would support, personally, higher taxes on cigarettes; I'm not a smoker. But I do agree with the arguments that people have given for cigarettes. What I do think is that we're maybe at the edge in terms of raising cigarette taxes any more, unless we improve tax administration so that even higher tax rates on cigarettes could be possible.

There are potential ways of improving the system and I think the previous speaker gave a few ideas, such as the way you control distribution. If you do it with alcohol, one could consider controls on the distribution of the cigarettes as well. That could always help in curbing tax administration.

Just one point on the export tax, as that came up in earlier discussion: I would suggest that the reason the federal government got away from the export tax was that it felt the export tax would not be successful in the end. The problem is this: One could put an export tax on tobacco sales coming out of Canada, and that would work temporarily, but in the long run, producers can simply, in other countries, particularly the United States, establish firms that would produce Canadian cigarettes for the Canadian market and produce outside the country. That was the fear, as I understand from discussions with officials in the Department of Finance, about the long-run impact.

If you're not worried about tobacco producers in Canada, then one could always do it—at least it might work to some degree—but for those people who are worried about the tobacco producers, what the export tax eventually would do is kill the production of tobacco in the country.

With regard to the issue of federal-provincial income and sales taxes, Satya Poddar is not the first person to recommend it. Alberta government officials or some people from Alberta have been arguing this position. This is an interesting argument, and the reason is that some people who love value added taxes know it's really the

federal government that's best able to impose a value added tax because of the treatment of exports going from one province to another and the way you handle the input tax credit system. If you like the value added tax, some people say, "We've got to have that at the federal level," and then they argue that provinces can handle the income tax, if they wish.

I'm very much against this point of view, but I would argue that income tax is best left at the federal level or at least that the federal government have a dominant influence in it. First of all, the income tax is an important tax for macroeconomic stabilization, and that is the role of the federal government, not of the provinces. For that reason, the income tax I think is best left with the federal government. Also, it's an important way of redistributing resources across the country, as the progressive nature of income tax allows for citizens in richer provinces to pay more tax compared to citizens in poorer provinces, and therefore there's a way of having interregional transfers done rather than just through the equalization program we currently have at the federal level.

Secondly, I think the income tax, especially the corporate income tax, is very difficult to levy at the provincial level and is best left to the federal government. In fact, even the federal government is now, in a global world, having trouble with the corporate income tax because of the ability of companies to shift income from one jurisdiction to another with differential tax rates.

Once you start looking at all those ingredients, I think the income tax is best left at the central level.

As far as the sales tax is concerned, historically, many economists felt that the sales tax is best left at the provincial level because it's one the provinces can handle. I take the view that that is a better tax, especially excise taxes. I don't see any serious problems with provinces handling them. There are some difficulties that may arise in terms of cross-border shopping, but generally they have been not that serious in a big country like Canada which is geographically dispersed.

As far as the value added tax is concerned, I'm not convinced that Canada has to have a value added tax. I don't think it's necessarily the be-all and end-all and I don't think we should pursue objectives in society simply to have one type of tax. In fact, my colleague Tom Wilson and I have a whole scheme in which the federal government, if it wants to, could keep the value added tax that provinces could piggyback on with a retail sales tax, but one in which one could achieve a lot of harmonization and simplicity and still run a good system.

In Europe, they've found now that value added taxes at state levels have not been a serious problem because they've gotten away from some of the prejudices that tax experts have had in saying how a value added tax has to run. In Europe, they've now been able to develop a new system, where it's still a value added tax but there are methods in handling sales going from one country to another. It's working, and it's working quite well.

Mrs Haslam: I didn't know they had a professor of taxation. I find that very interesting. When you look at taxation, do you look at some of the culture and social aspects of people when you're looking at taxation? Do

you study that?

Mr Mintz: When you deal with policy, especially as I work with a lot of different countries, you have to take into account institutional issues, the way people operate, how a country operates, and then condition your recommendations based on how that country actually operates, the social aspects of that country and everything else.

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Mrs Haslam: I noticed you were talking about a Third World country where everything's done in cash. I think when you talk about Third World countries and look at the amount of cash transactions, you also look at the infrastructure they don't have and the services they don't have and the health system they don't have when they're dealing basically in cash.

I'm very interested in the cultural aspects of it, because there's been a concern raised here among the members that once the pattern is established of not paying taxes or trying to get away with paying less taxes or—what we're here to look at—getting into the underground economy, when we come out of this recession, those patterns having been set up will be harder to break. I was wondering if you had any comments or any discussion around that, patterns you look at when you look at taxation.

Mr Mintz: People have not really measured very well to see whether there's an asymmetry; that if tax rates go up a lot that all of a sudden creates more smuggling or underground economy, but then if you try to have an equal tax rate reduction the underground economy doesn't get that much smaller.

Part of the problem is that people don't know how to measure the underground economy very well in the first place, so it's hard to really get a clear answer to that question. But in terms of the theory, one would expect some asymmetry for the following reason: There's a cost to learning how to cheat. First of all, it could be a psychic cost—people may not do it until they start engaging in it—but also there's a cost of setting these things up. The cigarette smuggling case I think is a very good example.

We raised the taxes significantly in 1990, I believe it was. There has been a very substantial increase in smuggling. If we drop the cigarette taxes to where they were, let's say, in 1989, would the smuggling go down by the same amount? I doubt it, because the system has now been set up. People have gotten used to that system, and they've already borne the cost of getting into that. From what I understand, there's now a lot of illicit trade involved with that criminal activity, so as a result it will be more difficult to reduce the amount of smuggling that's been involved.

Mrs Haslam: That brings me to another question. We're looking at the underground economy right now because it seems to have mushroomed, but we've always had an underground economy. Time after time when we have people come and talk, they seem to equate the underground economy with tobacco. Is that a reality or is the underground economy growing in other areas also, and why is it that we seem to only equate it with tobacco? Is it because of the criminality that the press is

making a cause célèbre, rather than looking at other factors in the underground economy?

Mr Mintz: I think this goes back to the issue of how you measure the underground economy. It's so difficult to do it that people have trouble decomposing even what they measure. For example, there's been some very good work by Peter Spiro, of the Ministry of Finance, on the cash balances.

Mrs Haslam: Yes, and we've had him in here.

Mr Mintz: But that doesn't tell you where the cash balances are being held or where the cash transactions are being held. I think what people do is look for illustrations, the obvious ones being things like cigarettes, the other one being cash transactions at the retail for, let's say, house renovation and things like that. There are lots of examples of that. It's all anecdotal and no one has a clear measurement of it, and at this point there are no data, I believe, that would allow you to separate and decompose what the size of the underground economy is.

Mrs Haslam: I have one more question, and it's more of a clarification. Have I got time, Mr Chair?

The Chair: Mr White wanted to ask a question, and there's only about a minute left for the government caucus.

Mrs Haslam: Then I'll ask my clarification. I didn't get to ask the last time because of Mr White's question, and I'm sure he wouldn't mind.

On page 6 it says, "There are mechanisms in the development of tax policy that could help deter tax evasion," and you mention an across-the-board tax, like a poll tax or a capital tax instead of an income tax, reducing the revenue loss. I'm questioning whether that would be seen as fair, because we're discussing the perception of people and fair taxation. Corporations can write off X, Y and Z, and we've had a discussion about the fact that writing off is not the same as tax evasion, but in the perception of the people out there, that is unfair, when corporations can write off all these marvelous things and the ordinary taxpayer can't. But you're suggesting that an across-the-board poll tax or capital tax could be seen to reduce the revenue loss arising from tax evasion, rather than income tax. I'd like to know a bit more about that and why you feel that would be seen as fair.

Mr Mintz: I would not recommend a poll tax. In fact, in Britain they had a lot of problems trying to identify who's a resident and that became a very serious issue. Even recently, despite the poll tax being eliminated in Britain, there is a number of cases of disabled people, mentally handicapped, who are in special hospitals and are still liable to pay this poll tax from many years ago. I certainly wouldn't recommend a poll tax. I think it is very unfair.

As far as the capital tax goes, I think that one on corporations is a little more problematic, because it's less clear what you mean by "fairness" when it comes to corporate income.

Mrs Haslam: I'm talking about the perception of tax evasion versus what a corporation can do, to the average woman who's paying those income taxes.

Mr Mintz: What I'm saying is the following: With respect to capital tax, many countries have resorted to capital taxes as a form of corporate minimum tax because they know it's very easy to create expenses, things like interest expenses, and dump them into a jurisdiction to avoid paying corporate income tax in that jurisdiction. If you go to Mexico, Columbia—Venezuela recently put one in—a lot of countries throughout the world now have corporate minimum taxes that are capital taxes. The reason they do that is to make sure that some money is paid by corporations to the jurisdiction to help fund expenditures, infrastructure expenditures, for example, that help the corporations.

In Ontario we have a capital tax on corporations, and one could make an argument that that capital tax is really just a way of trying to make sure the corporation makes some payment towards the provision of infrastructures that help that corporation.

Mr Kwinter: Mr Mintz, thank you very much for your presentation. We've had several presenters talk to us about the difficulty in measuring the underground economy, but one of the benchmarks they're using is the feeling that the holding of cash balances has increased and that must be a direct correlation to the underground economy.

I'd be curious to know whether or not you had looked at the possible other factors for the holding of cash; the idea that we've got historically low interest rates, certainly in modern times, where the incentive to put your money in the bank isn't as great, particularly when banks are charging more for accessing your own money. You write a cheque and you get a fairly significant charge for writing that cheque, so people figure: "There's no real incentive for me to put all my money in the bank. I'm much better off keeping some of it in cash. I avoid that particular cost and the penalty isn't that great because the interest I'm getting isn't that great." Have you done any looking into that particular area?

Mr Mintz: Yes. The work I've seen that has been done on the holding of cash balances explicitly allows for interest rate effects. It's well known that interest rates came down from about the late 1980s to now; as a result, there'd be greater incentive to hold cash balances with the reduction in those interest rates.

What people have found is that there's been a very significant increase in cash balances held after January 1, 1991. My bet is that even if you allow for tax rates—the GST combined with the provincial sales tax, income taxes, and think of cash transactions going on in the service sector—it's not just the tax rate increase alone that explains more use of cash balances but perhaps the psychological impact of the GST. It may have had, I believe, the impact of people saying: "I don't like this tax and I don't care any more. I've had enough and I think it's right to cheat." I think there's been a dramatic shift recently in terms of the way people view governments, the level of taxation, the benefits they receive, and as a result they're more willing to cheat than they used to be.

But outside of the interest impacts there's not a lot of other things that affect cash balances, except for the advent of automatic teller machines. I think that's had a

big impact in reducing cheques being written and people holding more cash for that reason. But that's something that's been going on for many years now, and the huge increase in 1991 in cash balances held I don't think can be explained by any economic factors, outside of a major shift in taxation in that year.

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Mr Phillips: I really appreciate your thoughtful advice and I think you've also given us perhaps more potential solution directions than most. We focused on the problem. I do want to go back to the problem just a little bit. We're trying to get some feeling of how large it is. You've mentioned the GST and that perhaps this stimulated things. Where would that manifest itself in terms of lost revenue and revenue reductions? The huge decrease in revenue in the province is in personal income tax. It looks like we're \$3 billion or \$4 billion short of what you would have expected as personal income tax revenue, given increases in rates and normal factors. Would that be where it might have shown up, in personal income tax?

Mr Mintz: I think in personal income tax, because if you're not going to report for GST purposes, you're also not going to report for income tax purposes, because both are levied at the same time. If someone's going to hide revenues on the GST side, they're going to also do it on the income tax side, because they know governments will audit both together.

Where I think a lot of the evasion is occurring—again, this is all anecdotal—is in what you would call final sales to consumers. When one business sells to another business, you have less cheating. There are problems that sometimes occur, let's say, under a value added tax system, where the purchasers might overstate input credits and the sellers may understate revenues that they collect. There are taxes they collect on behalf of the government to remit to the government. That sometimes does occur in some countries where there's very poor tax administration.

I was down in Brazil, and in Brazil this is a huge problem, where input credits are overstated under their value added tax and sales are understated for business-to-business transactions. That's because the businesses know that the government never gets around to cross-checking receipts. You've got to do that under a GST or a value added tax system to make the value added tax work. In fact, some people, I've been told, feel there has not been enough auditing under the GST in the first two years to make sure that people understand the tax and how it works and for people to understand that cross-checking of receipts is going on.

Where I think most of the evasion occurs is more at the final point of sale to the consumers, and where the margins are very big, where there are a lot of wage costs involved, things like services, I think it's possible. In fact, I was told of one restaurant where there are two cash registers, one that belongs to the government and one that belongs to the owner. The owner reports the GST and the provincial sales tax for one cash register and for the other one he doesn't. What it also means is collecting GST and provincial sales tax and putting them in his pocket.

Mr Phillips: You mentioned in your presentation that you and one of your fellow professors, I gather, had put forward a proposal on some form of harmonizing GST and PST. That may be useful for the committee to get. Is it easy to summarize it so a layperson might quickly understand it?

Mr Mintz: Yes, basically what we said was that if you wanted to have harmonization that works, that saves the public money and makes the system simpler, there are three or four basic principles you want to follow. First of all, there should be only one government that audits the tax, and that could be the central government. I think it would be easiest thing because you have some firms that operate across the country. You don't want a firm to deal with 10 different provincial auditors, so it's easier to have just one auditor, and that's at the central government level. I think the federal government should, in the harmonization agreement, collect the tax and audit it just like under the income tax.

But at the same time, we believe in the principle that provinces should have some autonomy and that if they want to have some zero rating of goods and services, they can do that. It wouldn't be too hard to do that. The federal government could do it through an agreement, because the basic rule could be to follow the federal base, but then the provinces, if they want to zero-rate books, can do that and the federal government would be willing to go along as long as it's possible to undertake the zero rating.

The third concept we had to simplify the system entirely for the provinces is to basically have the tax at the final sale. The way of doing that is that if a good or a service is sold from one business that's registered under the GST to another business under the GST, the GST might apply on the transaction and one firm claims a refund. The purchaser will claim a refund for the tax paid on the input, but then the provinces would levy no tax. It would be just a zero tax at the provincial level, and then you get rid of all the problems of interjurisdictional trades and having a tax on, let's say, exports out of one province to another. There don't have to be provincial taxes at every intermediate stage of production, let's say, from one business to another. All that could be eliminated.

So the provincial government basically keeps the retail sales tax that's piggybacked on the GST base, with some variation, with the province allowed to choose its own rates. I think it's important for the federal government to be flexible in its negotiations with the provinces and to try to get the provinces on board.

The Chair: Thank you very much, Mr Mintz, for presenting before the committee this afternoon.

RETAIL COUNCIL OF CANADA

The Chair: Our next presenters this afternoon, representing the Retail Council of Canada, are Alasdair McKichan and Peter Woolford. Would you please come forward and make yourselves comfortable. Please identify yourselves for the committee members and the purposes of Hansard.

Mr Alasdair J. McKichan: My name is Alasdair McKichan. I'm president of the Retail Council of Canada.

With me is Peter Woolford, who is vice-president of the retail council. We're happy to have the opportunity to appear before you this afternoon on a problem which is indeed a significant one.

I should explain that the retail council's members are representative of virtually every sector of store retailing and that together they account for something around 65% of Canada's total retail store volume. Also affiliated with us are something like 100 either sectoral-specific or regional specialist associations, and their members account for another substantial percentage of business. Our sister association, the Canadian Council of Grocery Distributors, has within its membership all the major wholesale and retail food distributors. CCGD supports the views we express today.

As we noted in our pre-budget submission to the Treasurer this year, we are as an industry—no surprise to you—having a tough time. Sales have been growing very marginally. Competitive pressures are very strong and margins have been under pressure, new competitors are emerging with new challenges to existing formats and the prospects for the future are virtually for more of the same.

Retailers have an additional challenge from the existence and, as we see, the growth of this substantial underground economy. Our members are finding that they're competing with suppliers in a number of products, but most particularly in relation to tobacco and alcohol. Some members also indicate that flea markets are outlets for goods, as we say, whose provenance is doubtful—a euphemism.

Our members believe they see the impact of the underground economy on some of the related service activities they offer, and they also see a pattern of purchases of certain categories of merchandise from their stores which leads them to believe other parties are indeed suffering from the underground economy.

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In our belief, the main reason for the rapid development of the underground market for goods and services is the desire to escape taxation. The most prominent products being sold underground, tobacco and alcohol, are both very heavily taxed, both absolutely and in relative terms. Cash sales and informal transactions offer the opportunity to avoid paying commodity, business and income taxes and, of course, all the employment-related payments.

We really think it's the heavy burden of government taxes that has pushed Canadians into a breaking of the laws. Our view is that the solution lies in the taxation area. We believe, at least in the medium term, some of them in the short term, governments must reduce their take from citizens to the point where the tax level is perceived by the citizens as fair and reasonable.

We know that as a committee you've already had considerable data about the smuggling of tobacco products and alcohol; we don't have any additional data to supply to you. We have seen the Lindquist Avey data. We have no quarrel with it; it seems to us realistic.

We gathered a couple of perspectives. First, it's clear

that the sales of these products in the economy are driven for tax reasons related both to the difference in taxation between Ontario and the US and to the absolute level. The enormous discrepancy between Canada and the United States has made it obviously very attractive to smuggle these products and to make them available for sale.

At the same time, it would be a mistake to assume that the proposed changes to tax of these two products in the US are going to solve the problem. We have some indications that tobacco products are now being smuggled into Canada from offshore. There's this indication that the distribution system for legal tobacco has matured to the point where you can virtually shop the world for low-priced merchandise. It can be imported covertly into Canada and sold here.

I think it's important to recognize that this alternative distribution system is profitable because of the absolute level of taxation of tobacco and alcohol. Until this is reduced or eliminated, the benefits to smuggling and other forms of non-compliance will be so high as to encourage people to engage in this kind of activity. The level of profitability is so huge that enforcement is going to be difficult or perhaps impossible in some cases. We say short-sighted taxation policy has created a Prohibition-type situation which cannot be controlled by law enforcement practices. I don't think that's too strong a statement.

The extent of the underground trades has had an impact on other parts of the retail trade. As a product, tobacco does bring customers into the store, and when customers are there they of course often buy other products as a matter of convenience. Not only do merchants lose the sale of tobacco; they also lose the sale of the accompanying products. To the extent that individuals go to the States to purchase tobacco and alcohol and smuggle them back, of course retail merchants in Canada are also apt to lose the additional purchases these travellers make in the US.

There's a criminal element apart from the smuggling. The tax-driven price of tobacco has made these products extremely attractive targets for thieves. We've seen very sharp increases in thefts of tobacco in recent years, sometimes of a store's entire inventory of tobacco. That material finds its way back into the underground trade. Often the criminality is accompanied by violence, with injuries to staff.

Moving on from the tobacco issue, a second competitive concern is that they believe there is some evidence that flea markets, some flea markets at least, are acting as outlets for stolen or smuggled merchandise. Many of the markets in fact run quite strictly and well, but that's not the case universally. We think there's a good case to be made for the quite strict policing of these markets to ensure that they are collecting tax and paying it, and also that they're not engaged in the sale of stolen property.

We asked our members for information that they might have that would give us some lead to the extent of the underground economy. We can't say that we've received any hard data as yet, but they do give us anecdotal evidence that they do see signs of the illegal activity

that's going on. For instance, particularly in the home improvement area, merchants report that they are seeing substantially increased numbers of cash sales, and presumably some of these are by individual contractors who are buying by cash and doing work and not recording the transaction.

Some retail firms offer services along with products and they also are finding instances where customers ask them if there's a discount for paying cash. Obviously, the customers are used to that kind of treatment and they assume it's going to be available from others. Of course, again the incentive is for the customers.

We'd be happy to attempt to secure any other information that we can for your members that may be of interest to the committee. I'll just add that, from our perspective, far and away the biggest problem is the tobacco problem. We believe it has to be addressed on a taxation basis. We're encouraged by the action which looks as if it may be taken in Quebec, and we think there's a good case for a similar approach in Ontario. Our problem here is not quite as extreme as it is in Quebec, but it's growing so fast it will not be long before it gets there.

The Chair: Thank you very much for your presentation. We have 30 minutes. We'll divide that half and half, I guess, between caucuses.

Mr Kwinter: Mr McKichan, one of the last things you said really struck a chord with me. In all of the presentations we've had to date, the implication is that if someone wants to pay cash, invariably he's trying to do it because he's trying to evade taxes. As a retailer, I have really a two-part question.

What proportion of your total sales—when I say “you,” I mean the retail industry—is by credit card and what proportion is by cash, and is there much of a movement of people who are saying, “Is there a discount for cash?” It's not so much that they want to evade taxes, but the feeling that, “If I pay you by credit card, you are paying $x\%$ to the credit card company for that service, and if I pay you by cash you're not paying that, and why aren't you passing that along to me?” Is that an issue? Is that something that is out there?

Mr McKichan: Let me, Mr Kwinter, deal with the first part of your question first. The ratio of cash to credit transactions varies enormously by sector. In the case of the food trade, with which you are well familiar, there is virtually no, or very little, credit card use, a fair amount of payment by cheque, but it's the equivalent of cash, so in that industry it's not an issue.

On the other hand, in all the sectors like clothing, furniture, apparel, sporting goods and so on where there are sizeable ticket prices, the ratio of credit card sales is very high. It can be as high as 80%. In most cases it's a convenience factor. It avoids people having to carry around large sums of money. A high proportion of these payments are paid off by the due date, within 30 days or 30 days plus the grace period of the purchase, but 20% or 25% are rolled over for a greater or lesser time. Usually it's for quite a short time. The credit period on a credit card type of payment usually averages something

like six or seven months when people use the credit facility on the card.

So far as the second part of the question is concerned, it is a question that I wouldn't say is asked frequently, but it's a noticeable factor. Not many merchants give a positive response to that answer because, first of all, the discount rates available to most merchants—for instance, by belonging to an organization like ours where we've negotiated a deal for our members with the credit card companies, it means that the discount rate is something around 1.6%, 1.75%. That shouldn't be compared with zero, because when a merchant accepts cash, he's also accepting the liability to handle that cash, pay the bank's handling fees, accept the risk for handling the cash. So the differential so far as the merchant is concerned between cash and the discount is quite slight.

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Mr Phillips: Thank you very much for the brief. I know it was prepared quickly and I appreciate it.

There's no mention in here that I can remember of the GST. In virtually every other discussion we've had with other groups, there's been a feeling by most that the GST may have been the catalyst that unleashed a new wave or a growth in the underground economy. There's been a fair bit of debate here about that and whether there's anything that one can suggest. As I say, there's even been some discussion, including by the previous speaker, about the possibility of harmonization or having the GST added on to the price of the product rather than included in it. From the retail council's view, is that a significant issue for the underground economy and have you any advice for us?

Mr McKichan: We didn't mention it, Mr Phillips, because so far as our sector is concerned, there is a very slight—I would suggest minimal—amount of merchandise sales going through the underground economy. The underground economy, apart from tobacco and alcohol, is concerned with services primarily. Retailers are not selling things in the underground economy because it's just too hazardous for them. It's not realistic.

On the other hand, I've no doubt that the GST was a very significant factor in the encouragement of hidden sales of services. I think it was the straw that broke the camel's back in many cases. I would go on to say that the GST was also a significant factor, among others, in the big increase in cross-border shopping of three and four years ago. Obviously, the value of the dollar and other things were involved as well, but it was certainly a factor.

In terms of what we do now, we've always advocated harmonization and we would value it virtually on any reasonable basis. Our highest priority would be to see a complete harmonization, the same base, one collecting agency, one audit procedure and so on, simply for the sake of eliminating cost, ensuring certainty, discouraging people from finding ways around it. As a secondary ambition, we would like to see any other reasonable form of harmonization which particularly would allow the collection at the border. The failure to collect provincial tax at the border is still a substantial inducement for people to go cross-border shopping.

Mr Phillips: I think you've indicated tobacco seems to be the highest-profile issue with your members.

Mr McKichan: Very much so.

Mr Phillips: The studies we've seen on it indicate that maybe 15% of tobacco sales would be illegal.

Mr McKichan: We believe it's much more than that now.

Mr Peter Woolford: Our numbers suggest around 25% and growing quite rapidly. You get to the 15% number by the kinds of calculations that are in the Lindquist Avey study, which looked only at Canadian product being exported to the US and then smuggled back in. That study noted that accounts for about 60% of the underground sales in Canada. The other 40 percentage points are coming from other sources, usually US off-brand manufacturers or now increasingly from other third countries, from the Far East or from southern Europe. When you add those two together, it comes out at around 25% for Ontario. In Quebec it's already 50%. In both cases the growth rates are quite dramatic.

Mr Phillips: That's actually probably the highest number we've heard, I think, 25%.

Mr Woolford: If you look at the Lindquist Avey study, they suggest it's about 15%, based on exports to the US and coming back, and if you take 40% of that, you arrive at a figure of about a quarter. Those are the data for 1992, and the more recent update suggests that it's now somewhat higher than that.

Mr Phillips: Have you done any work with your members in terms of confirming that number? The reason I raise it is that if I look at what appears to be the revenue from tobacco tax, it hasn't dropped that dramatically. You would have expected that there would have been a substantial drop in tobacco tax revenue.

Mr McKichan: We could get some figures of year-over-year experience by some of the major vendors.

Mr Phillips: That would be helpful, if it didn't take a lot of your—we're having some difficulty getting our hands on the size of this issue and—

Mrs Haslam: Quantitative. Nobody has the data.

Mr McKichan: It would just be a signal. It wouldn't be absolute.

Mr Phillips: I understand that, yes.

I found your comments on the home renovators interesting. I gather what you're saying there is that among some of your lumber members, my recollection is that many of the contractors have an account that they run and they go in there and get all their stuff and then put it on the Acme account. You're suggesting that your retailers have seen those accounts drop more than you would have expected with a weak economy?

Mr McKichan: And proportionately their cash sales increase.

Mr Phillips: Yes. Which you would suspect could be traceable to them.

Mr Woolford: That's hard to judge because we're in the midst of, first of all, a recession in 1991-92 and then a very slow recovery, but our members indicate that they feel their account sales have declined far more than they

expected they would in such a recovery and they've seen that marked by relatively stronger cash sales, and I think in some cases they've recognized the face handing the money over.

Mr Phillips: Or the truck in the parking lot.

Mr Woolford: Yes.

Mr Kwinter: Just for the record, I wanted to make clear that your position is that the retailers who are in the lumber and building supply business are not participating in the underground economy.

Mr Woolford: No, no.

Mr Kwinter: All they're doing is observing, because of the change in balance, that their feeling is that there must be increased activity in the underground economy because their proportion of cash sales to charge sales has reversed itself and that's probably the only real reason for it.

Mr Woolford: They're quite properly and correctly collecting GST and PST on those sales, so at least the commodity portion of the taxation is being paid, but they suspect, because of the change in the pattern of those purchases, they're being put in by people who are being paid for the service but not charging tax on it.

Mr Kwinter: Yes, and as Mr McKichan rightly said, the underground economy is basically in the service sector, and these people, other than for the recession, are not being impacted negatively; they're just noticing that this is the change in what's happening.

Mr McKichan: Yes. Absolutely.

Mr Woolford: One area where our members were a little cautious about saying too much because they don't have much hard evidence is where they are in the service business as well: providing home repair services, home installation services, servicing of equipment and products they have sold, major appliances, that sort of thing. They suspect that at least some of their service representatives are going to the house and saying to the client essentially: "You can either pay through the company and pay the full rate or I can come back tonight and do it for you for somewhat less than the rate. There'll be no GST, no PST, except on the parts, and I'll just report nobody was home when I came to do the sale." In that instance, the employee is in fact stealing business from his or her employer and turning it over to his or her own account but also evading the tax at the same time.

They don't have any sense of how big that is. They all hope it's not, but they've seen enough evidence to know that is occurring.

1730

Mrs Haslam: I have a couple of questions going along that route, and one of the areas I'm looking at in my questioning is the culture of it: Is it setting patterns now, when you talk about the increase of cash sales versus account sales, and customers coming into retail outlets and saying, "Is there a reduction for cash"? I agree with my colleague that sometimes you're just asking whether there's a reduction for cash sales, not expecting that it's a tax issue but that I would get a reduction because I have the cash in my hand.

I'm concerned about the patterns, though, and how set those patterns are becoming. Even in a situation where the economy does come out of the recession, albeit we know it's going to be slow, are those patterns already set so that they will be hard to break? I wondered what your retailers were saying about that. The idea of asking "Is there a discount for cash?" is not new. This has been done previously, but I would imagine there's been an increase in it and that's the change you've noticed?

Mr McKichan: To answer the last part of your question first, the answer is yes. Our members believe they're not being asked that question because the customer thinks there's going to be a substantial saving to the retailer because of the credit. They think it's because they're suggesting there may be a way of avoiding some of the tax.

But to revert to the first part of your question, all I can offer you is a personal opinion. We haven't asked our members this, and I don't know if their opinions would be any better than ours anyway. My personal opinion is that you do very quickly ingrain a habit of this nature, and it's much harder to unravel than it is to establish.

Mr Woolford: May I pursue that for a moment? I think we've seen an analogue to that in the cross-border shopping phenomenon. The dollar has dropped from a high of 89 cents down to 75, 76 cents, a very dramatic decline. Relative prices Canada-US have turned around quite substantially. That plus the improved competitiveness of the Canadian retailer have made our prices pretty attractive compared to the US.

Yes, cross-border shopping and cross-border same-day trips have declined dramatically, but Canadians are still going in numbers at a very high level. We're still seeing monthly numbers, while they've dropped down substantially from 1981-82, at extremely high levels relative to the historic pattern. There is now a pattern whereby Canadians routinely go across the border, shopping the market, and they're looking for those bargains. I think that is a good analogy for what's happening in the underground economy, that even though it's not there sometimes, they're now going to routinely look for it.

Mrs Haslam: That brings me to my next point, which is looking at education. Is that an area we should be looking at when we talk about the underground economy or when we bring forth the report? Should we be looking at educating the public on the fact that when it's tax evasion and when it's an underground economy, the programs aren't in place because government doesn't have your taxes to put your programs in place? Would an education program do anything to counter this underground economy growth?

Mr McKichan: Let me again use a cross-border analogy in relation to that. When cross-border shopping was at its height, we looked quite seriously at embarking on some institutional advertising, explaining to Canadian residents that when they spent money in Canada, it stimulated the economy and might even secure their own job, never mind their neighbour's. We did some consumer research in relation to that, both with focus groups and with polling techniques. We found that customers' rage was so intense that that message would only aggra-

vate them. It wouldn't change their behaviour. It might, if anything, intensify their behaviour, so we had to back away from that approach.

Mrs Haslam: When you talk about rage and about anger, it was the middle of the recession and money was tight, unemployment was rising.

Mr McKichan: Taxes were high.

Mrs Haslam: They were concerned about their tax dollars. That type of rage was there, and they didn't get the message that the dollar spent here went back into programs here.

Mr McKichan: They didn't care about that. The answer we got was, "I owe an obligation to my family to do the best I can, and if it denies the governments revenues, if it denies merchants volume and threatens somebody's job, tough."

Mrs Haslam: I have another question on this presentation. This was a letter to the legislative committee on finance and economic affairs. I don't believe it's what you read; I think it's a little different. You didn't read the letter, did you?

Mr McKichan: No, I paraphrased it.

Mrs Haslam: That's correct; okay. On page 2 you talk about the smuggling that is actually coming in from outside the country now. Do you have any idea to what extent that is? I'm surprised it has reached that magnitude.

Mr Woolford: These are the data I was referring to earlier. It now looks as though about 40% of the tobacco that is coming into Canada is coming from non-Canadian manufacturers. A lot of it is coming from generic-brand manufacturers in the States, but increasingly, apparently, we're seeing some product from the Far East and from Europe. Some of it is no-name brand product, some of it is name-branded product manufactured elsewhere and smuggled into Canada. You might get a package of this name brand but it was made for a foreign market. It's grey-market tobacco, in a sense, but it's brought in illegally.

Mrs Haslam: I didn't realize that was the figure you were looking at. I have two more quick questions.

When you talk on page 3 about, "Some retail firms that offer services along with products...customers or staff are seeking cash deals," are there any comments from the retailers you talk with about health and safety issues, having a man coming into your home and not being covered by health and safety; not having any guarantees on the work he does on a cash deal in terms of consumer protection? Do the retailers try to sell that aspect when they're selling their products?

Mr Woolford: Not that I'm aware of. I think the problem for them is that they're being stolen from by their employees when this goes on. They're assuming they're doing it with a proper, responsible consumer relationship where all the protections are in place, and an employee breaks the trust and does it after hours.

Mrs Haslam: Are you saying there are very few retailing outlets that would do it on their own, that it's basically their employees who are stealing from them?

Mr Woolford: Again, the danger for a retail firm is so large that it's not worth their while. Even a relatively small appliance seller makes so much more money off the sales of appliances that the damage to their reputation and to their relationship with the taxing authority if they were ever caught makes it not worth their while.

Mrs Haslam: It's not exactly the information we've been getting from other small firms, and that's why I was questioning you on it.

Mr Woolford: It's an individual thing with the service person. If it's a service firm, then of course it's very much worth their while.

Mrs Haslam: But you're talking basically appliance stores and retail outlets, that type of service.

I've one more comment rather than question. I was talking about the underground economy to somebody in my riding. We were talking about the fact that they're doing cash sales and they said: "But isn't the money still in the system? Yes, the government is not getting its taxes and its share, but doesn't the money for that cash sale in that person's hands still go back into purchases for groceries, purchases for heat? Isn't that money still in the system?"

For instance, when you look at the welfare system, people think welfare cheques are a problem. I remember the member for Chatham talking about the fact that welfare recipients are the ones who put the money back in the system. They tend not to save the money. Their money is so meagre, they spend it immediately on the necessities. Isn't that the same for cash sales?

Mr McKichan: Yes. It goes right back into the system, but the important exception is that it's not contributing its share to all the programs that citizens indicate they want and need.

Mrs Haslam: I agree. It was an interesting comment I hadn't put a lot of thought into; that yes, the government is losing, but the money, as far as retailers are concerned, is still in the retail business. They're still getting it.

Mr McKichan: When it's carried to the extreme in Italy, where there is a very prosperous economy but an absolutely bankrupt government, that's the logical—

Mrs Haslam: Or Third World countries that have a majority of the business done in cash sales and very little in the way of social programs.

Mr McKichan: And very little ability to raise taxes.

Mrs Haslam: That's correct, yes. Those are just my comments and questions.

Mr Woolford: The other part of course is that Canada still does have a smuggling problem. To the extent that those dollars are spent in the United States or other countries, those are dollars flowing outside of the country.

Mrs Haslam: Every time we talk about the underground economy, as I said, it always seems to come back to tobacco being the catch for all we think of as the underground economy. Is it one of many items, or is it just the biggest item right now?

Mr McKichan: In terms of our industry, it's head and

shoulders above everything else. In fact, in our industry it's virtually the only item we're concerned about, apart from a little bit of business done through flea markets.

Mrs Haslam: Could I ask one more question on flea markets? How much time?

The Chair: There's about four minutes left, and it's really up to you to make these arrangements with your caucus members.

Mr Sutherland: That's one of the questions I wanted to ask about, flea markets.

Mrs Haslam: I'll ask mine, you ask yours, and we'll get an answer together. You talked about flea markets and said you wanted to do more policing of flea markets. My question is, aren't there some firms that go to flea markets on a Sunday and operate in a flea market?

Mr McKichan: Oh, yes.

Mrs Haslam: You wanted more policing for stolen property and whether they pay taxes. How would you recommend that be done? Do you feel that the public in general and those attending flea markets would look adversely at an increase in policing, and how would you go about increasing the policing at a flea market?

Mr McKichan: I believe some police forces on their own initiative have in fact checked up on stall holders—when they see merchandise that looks suspicious, they've attempted to trace it down—and sales tax inspectors have attempted to ensure that tax is being collected. It has been done in a small way. We're just suggesting that the intensity of the scrutiny probably deserves to be higher.

Mrs Haslam: That was my question on flea markets. Mr Sutherland might have one.

Mr Sutherland: You said it was a small portion. If you have any evidence about what portion you think the flea markets might be, if you could forward that to us, that would be great.

Are we in some ways, with the underground economy and its growth, kind of cross-border shopping too? In effect, since the differential has changed on the prices, people aren't seeing cross-border shopping as the great advantage, so now they're turning to the underground economy as a way of doing that.

Just one other question: We've heard a lot of people say that people perceive this as a victimless crime, that it's only the big, bad, taxing government. But aren't you really telling us that your members are the victims in this?

Mr McKichan: We're all the victims. All of us who are taxpayers are the victims.

To answer your first question, you can't cross-border shop for services, and a big part of the problem, as we've recognized, is in the service area. But in the case of the cigarette issue, whereas five years ago people would go across to buy cigarettes, they don't have to do that any more; they can buy them as cheaply or more cheaply right here in Ontario. The smuggling issue has displaced some of that traffic.

Mr Woolford: In response to your first question on the proportion of flea markets, no, we don't have any data; we simply don't know. The closest I can come is

some information I had from our Quebec affiliate, le Conseil québécois du commerce de détail, which did some work in this area in Quebec about two years ago. They were very concerned about it, because not only were flea markets open on Sunday when the retailers were closed, but the flea markets were also not required to charge PST on their sales.

At that time, I think they thought they were losing around 3% of their sales to flea markets. I'm not fully sure that's the right number; that's what sticks in my mind. I would think it would be less than that here in Ontario at this time, so it's not a major problem for the trade.

Mr McKichan: Especially because of the differential application of tax. I think it would be under 1%.

Mr Sutherland: I just hope too we don't interpret

that all cash sales are attempts to avoid. As someone whose only credit card is an Eaton's card and does most by cash, I'm paying my taxes when I do it.

Mr Phillips: We know that.

The Chair: Thank you, Mr McKichan and Mr Woolford. I'd like to thank you very much for making your presentation before the committee today.

To the members of the committee, we have had an agreement from all the members of the subcommittee that we will meet on the afternoon of November 25 to deal with three other groups that would like to make presentations before the committee.

This committee stands adjourned until two weeks from today at 10 am.

The committee adjourned at 1745.

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Jeudi 18 novembre 1993

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Underground economy

Économie clandestine



Chair: Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 18 November 1993

The committee met at 1006 in committee room 1.

UNDERGROUND ECONOMY

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. We continue our investigation of the underground economy.

SATYA PODDAR

The Chair: Today our first presenter is Satya Poddar, a tax consultant from Ernst and Young. I hope I've pronounced that correctly.

Mr Satya Poddar: Yes.

The Chair: When you're comfortable and ready, you may proceed with your presentation.

Mr Poddar: I think I'm ready now. I have just prepared some speaking points just to get the discussion going from my side. I didn't quite know how to focus them, but if I'm sort of repeating things you've already heard, please feel free to interrupt me and I'll change and go to some other topics.

In my judgement, evasion in Canada is growing but still it is much lower than in many other countries. I do a fair amount of work outside Canada. I've done a fair amount of work in eastern Europe, even the European countries, and developing countries like India and Indonesia. I think, even though it's appropriate for Canada to be concerned about the emerging trends, it isn't the situation of being a disaster in Canada.

What are the factors that have contributed to a very high degree of compliance in Canada even to this date? To me, these factors are important to understand, because if you have to take some action maybe you can strengthen these factors which have contributed to good performance in the past.

Number one is, of course, the public attitudes. In Canada, the public attitudes are very supportive of the tax system, and to me, this is largely because people can see the benefit they receive from the taxes they contribute to the government. In that regard, in my discussions with various groups, at casual conversation, they always mention things like health and education benefits and the universality of those programs. The quality of the health care system you have in Canada really comes out as a very significant visible benefit to the public that induces greater compliance than would otherwise be the case. In other countries I've been to, people say, "Why should I contribute to the government when I get nothing for my tax dollars?" That forces them to avoid taxes.

The second thing which is quite remarkable about Canada is an extremely efficient and honest tax administration. I was at the Department of Finance in Ottawa for 17 years before joining Ernst and Young, and I've been with Ernst and Young, from the other side of the fence, for about five to six years. I have not come across a single instance where the tax officials have been involved

in any kind of improper, illegal or corrupt activities. In no discussion to date have I come across a single instance where a client would say, "Well, can I bribe the official and get around my audit problems?" That doesn't even come up on the table at all, while in most other countries I've been to it's a standard practice where, if you have a difficulty, you find a way of bribing out of it.

The third thing is computerization of tax administration. In Canada we have a population of 25 million, 26 million people and we have approximately 18 million tax returns filed. The returns are filed in Ottawa for the personal income tax in March and April, and by July everything is processed. That's an amazing degree of efficiency, not only the speed of processing but also the things that go on behind the scenes, like computer matching. You miss out one T4 slip from your income tax return and the chances are that during the very initial stage of processing by the computers, Revenue Canada will pick it up.

T5 slips: So far, the matching of the interest slips has been almost at random by Revenue Canada manually. Now they're making it electronic. They're requesting all the T5 slip files from the banks and financial institutions on electronic media so they can be matched automatically.

I remember in the mid-1960s, or whenever they introduced the first T5 slip reporting, I was looking at the data on interest income that was reported for tax purposes and it really shot up. Just the requirement that each and every financial institution has to issue a T5 slip resulted in a dramatic visible impact on the reporting of interest income, even though there was no matching, manually or otherwise, within Revenue Canada.

The advantage of computerization is that you can have a very fast retrieval of information. I've been to countries where, suppose you know there's a fraud and you want to investigate what went on, to really dig out the files and collect all the facts together may take you months and months, but in Canada, within half an hour you have the complete history of the taxpayer before you; you can find out exactly what went on.

In Ottawa—and I guess I'm more experienced about the Ottawa system than the provincial system—they take every 10th taxpayer and keep the complete life history of that individual on the tax records, every 10th tax record, at random. They call it a longitudinal file. It is mainly done for statistical purposes for economists and finance policymakers, but if they really want to use that file for tax investigation, they can do it very quickly.

They can also do computer screening of the tax returns, rather than just going to the mass hard copy of the tax returns and finding out what goes on. You can observe patterns: in which particular region, in which particular industry taxes are being paid at a low rate or a high rate. Take the example of waiters. At one time

Revenue Canada decided to pull all the files of waiters and find out who was reporting what income. When you can do matching of the returns for the whole industry, it's much easier to detect fraud than otherwise.

Another good feature which helps high compliance is registration of big transactions like houses and car purchases. In other countries, in house purchases nobody pays any tax because there's no system of registration of house purchases. In this country, it is virtually impossible to avoid even a penny of tax on a new-house purchase. On renovations and repairs, yes, there's a lot of avoidance, but on a new-house purchase there's not a penny of tax you can avoid. It's the same thing for the new-car purchases, and even the used cars, in many cases.

Strict regulation of financial reporting by public corporations: Many large corporations are involved in sort of improper activities in foreign countries, but in Canada the audit requirements and the regulation of their financial reporting is so strict it is virtually—I shouldn't say impossible, but it's not very common for them to indulge in illicit activities.

In that regard, accounting firms and auditors play a very crucial role. When I came to Ernst and Young, I was amazed about the degree of scrutiny that companies go through and how strict they are in enforcing the rules properly. In fact, in many ways they act like policemen of the government, not only on the tax side but also on the non-tax side. And there's a difference in avoidance and evasion. They obviously try very hard to save the client's tax dollars, but that's through proper channels and interpretations of the law, not through evasion. We have strict instructions that if any client suggests any activities which are in the nature of evasion, please walk out of the meeting.

Use of credit cards and financial intermediaries: Many more transactions go through financial institutions in this country than in many other countries. The division is very large. So as a result of these features, there's virtually zero non-compliance in the case of wages and salaries.

There's virtually zero non-compliance for investment income. Around the mid-1980s—1985, 1986—there was concern about these treasury bills and bearer bonds, whether income was reported on those or not, but now Revenue Canada has issued instructions to have T5-slip-type reporting for bearer bonds, so even there now it's very difficult to hide any income that you get.

Sales by larger enterprises managed by employees: I have a friend who started a dry-cleaning shop, and he had three stores. I guess he had some expectation that he didn't have to report all the income. So he had a very loosey-goosey system, but then he found out that his employees were cheating him more than he was cheating the government in the tax department. So he had to put in very quickly a very sophisticated cash register system so no employees could cheat him. One penalty he had to pay because of that was that he couldn't cheat on the taxes any more. But he said, "I'd rather pay the taxes than have my employees rob me day and night."

Sectors with low compliance: Again you have to define what is compliance or low compliance, and I guess there

one can have a lot of debate about evasion versus tax avoidance. There are areas where the difference in the two really becomes a subjective judgement as to whether something is proper or improper.

But you can divide the low compliance areas into two types. There are the traditional low compliance areas, where no country in the world has been able to do much about it and virtually every country has accepted poor compliance, areas like jewellery; self-employed persons providing services to consumers, your plumber, electrician and other people who come and do the repair work at home; and some smuggling by tourists for personal baggage. When you go outside, you bring in a few things and don't declare them fully at the customs point.

Those are the three main areas where every country has accepted some degree of leakage. Regardless of whether the taxes are high or low, you can't really do much about those things; there are always some gaps. But the non-traditional sources of low compliance, which can cause significant revenue leakage, are the ones which should be of concern to the government in Canada. That revenue leakage from the non-traditional sources was small in Canada but is becoming large. These are, number one, tobacco, alcohol and motor fuels.

In my judgement, much of this change in attitudes that has taken place in Canada started with tobacco, alcohol and motor fuels. People were going across the border, filling up the car—in fact, motor fuel purchase was the main motivation; it paid for the trip—and then any goods they could bring in were icing on the cake. Once the stories got around that yes, it was very easy to make a lot of money from these things, even the large enterprises got involved in fraud of excise taxes.

I think there's also a lot of fraud—I don't have any concrete statistics—in the case of social assistance claims. I'm not talking about the generosity of the social assistance systems, but the fraudulent claims by well-to-do people for social assistance. How pervasive it is, I don't know, but I do hear a lot of talk about people defrauding the social welfare system quite extensively.

You've heard stories about Americans coming into Canada and getting the free drug benefits and medical benefits, fairly well-to-do people who go on welfare even though they may have part-time jobs, and that again changes the public's attitudes, because they say, to put it bluntly, "My God, why should I be paying taxes to fund these welfare bums?"

The sales by smaller retailers, this is a new phenomenon, I guess, and in that one you really have to do analysis sector by sector. I do a lot of work with restaurants, and I was amazed how much they're suffering because of underground sales in the restaurant industry. The contributing factors there, I'm told, are hot dog stands, chip wagons and they call them "booze cans," which are liquor shops which serve liquor beyond 1 am in the morning.

There are all kinds of reasons why these things are growing, but lots of clients of ours who operate in facilities like SkyDome pay the franchise fees, very heavy rents, but they lose all the business to all the people standing outside by the curbside, taking business

away, and who knows how much of the tax they report. Of course, they have no franchise fees, no rents, and on top of that even the taxes they collect may not be coming to the government.

1020

Cross-border shopping is a new phenomenon, and international investments—without going into the details, the comment I can make is that in my judgement, Canadian tax laws are not in line with the new international realities. Most of the Canadian tax laws were drafted for domestic transactions. With globalization, the nature of international transactions is changing very dramatically and the Canadian income tax laws are not really moving fast enough with the changes taking place in the international transactions.

That's not necessarily fraud; it could be avoidance, but the United States is moving very aggressively in transfer pricing, in all kinds of financial transactions, hybrid financial instruments, hedges, options which are traded worldwide. There the difficulty is that you don't know where the income is to be allocated, so when you transact foreign exchange commodities type of transaction things in foreign exchange markets, where do you report the income from the transactions? Does it go to the tax-saving country where there's no tax or does it go somewhere else?

The US has brought in very complex rules and the rules have to be complex because the transactions are very complex. In fact, in the past four or five years, that has been the sole focus of their revenue-generating efforts and they are being very successful. In Canada, we are still somewhat passive in that area.

If you can allow me two or three more minutes, Ernst and Young was asked to do a comprehensive study for the jewellery industry in Canada and I was personally involved in understanding how underground activities take place in jewellery. We interviewed a lot of people and people were actually quite cooperative in telling us.

We met the so-called bag man who brings a bagful of diamonds across the border. In fact, when we tried to set up an interview with him, he changed the location three times. He said, "Come to this hotel." When we went into the hotel, we had a message to go to the booth and we when we went to the booth, there was a message, "Please come to that room at such-and-such a place."

But anyway, we had the chance of talking to these people. We talked to lots of manufacturers, retailers and wholesalers, and I guess everybody was very honest and forthright about the nature of their activities. This is one industry where the underground economy is very large. Our estimates suggest that as large as two thirds of the total trade in jewellery could be underground.

Just to give you very concrete statistics that almost tell you there must be something wrong, we looked at the reported consumer sales of jewellery. They're one third lower in Canada than in the US. You don't really expect the jewellery consumption to be higher in one of two countries like Canada and the US when the incomes are similar and consumer tastes are similar, but the reported statistics show that the jewellery consumption in the US

is one third higher than in Canada. The reason given is that the US doesn't have any sales taxes on jewellery while Canada does.

We also found that within Canada retail stores in Quebec reported jewellery sales which are only 75% of the all-Canada average. In fact, Quebec traditionally is viewed as the highest consumer of jewellery, but the reported jewellery sales in the province of Quebec were three quarters for the all-Canada average and they're only 60% of Ontario's. So you wonder, when the Quebec residents consume so much jewellery, why do they show so little sales? In fact, we talked some of the retailers and the wholesalers, and if you had these retail sales per store in a province like Quebec, you'd be bankrupt. You need a certain volume of sales to survive, given the square footage they have in the stores.

Then we looked at the raw material. In Canada, we have very good statistics about how many precious stones come into the country, how much gold is melted in the country and how much silver is melted in the country. On that basis, we inflated those numbers. If so much gold is being melted for jewellery, what will be the retail value of the jewellery? It's very easy to figure that out, because when we were talking to manufacturers and wholesalers and retailers, they give us the markups, that an ounce of gold worth \$400 will convert into a retail jewellery value of, say, \$1,000.

On that basis we estimated what the retail sales of jewellery should be and we compared those with the actual sales of jewellery. We found a very substantial gap between the potential sales based on the raw materials that were being consumed and the actual reported sales to the government, reported to Statistics Canada. We also found that what is reported to Statistics Canada is almost identical to what is reported for tax purposes, because the jewellery sales for the GST purposes were almost the same as the jewellery sales reported to Statistics Canada.

My last one minute: What can be done? My own impression is that you have to do a sector-by-sector review. Our jewellery study was fascinating and we were able to dig out so many details about the nature of underground activities. In fact, we found that people are quite willing to talk openly about the nature of the activities. They won't identify particular players but they'll tell you everything they do.

If you know exactly what goes on in a particular sector, then you take a sector-specific action, and in taking the action, particularly on the tax side, there are always honest people who are prepared to cooperate with you, because they don't want to lose business to the dishonest people. The degree of cooperation is so much that if the government wants to make use of the cooperation, that can be very effective.

One particular thing I have in mind is the requirement for the reporting by contractors. Right now, there's no requirement on the consumer to report the purchases he is making from a self-employed contractor. Suppose you put on a 15% withholding tax on the buyer for any amount you pay to a self-employed contractor for work done outside a business, because business people will have an incentive to report to get the deduction. If you

are a consumer who is not buying things for business but for personal use, you have to have a withholding tax of, say, 15%.

Now that at least puts the onus on the buyer. It will create a feeling of guilt. Right now many people say: "Look, it's not my business. I paid my price and it's your business to pay the taxes or not to pay the taxes." But if you impose this withholding tax requirement there may be a change in attitudes. You'll create a paper trail. Now, obviously, you won't be successful completely but at least it'll create a fear, and this may also help control the underground economy.

The last thing is that I really feel very strongly that the more complex the laws, the greater the evasion. In some cases evasion is deliberate, in some cases it's innocent, because people find laws so confusing they take liberty with them.

Take the example of food. Again, I do work on the restaurants. Food is not subject to sales tax, neither GST nor the provincial sales tax, but other items are subject to tax. I'll give you a very concrete example. I want to buy flowers at a grocery store and I say: "Come on, the price is too high. Please don't charge me tax on it." He says, "Okay, don't worry about it." He punched flowers as food. How will anybody find out whether that store sold flowers or groceries? The tax was avoided. It was only about 50 cents in tax, but there is a concrete example how, when the laws are complex, food versus non-food borders, it's very easy, and you create incentives. In the food industry there are so many borders.

You've heard the pig rule: If you buy six or more doughnuts and eat like a pig, there's no tax; if you buy less than six, you have to pay all the taxes. It's not very difficult for people to get involved in illicit activities in situations like that.

If you have simple laws and the base is broad, at least you don't give them an innocent excuse, "Oh, I didn't know it was taxable or not taxable." When everything is taxable, at least then you have to say, "Yes, you've committed a crime because the laws are so simple how can you misread them?"

1030

Mr Gerry Phillips (Scarborough-Agincourt): How long do we have, Mr Chair?

The Chair: We have about six minutes.

Mr Phillips: Each caucus has about six minutes?

The Chair: Yes, and then, just so Mr Cousens knows, we're going to from you to—

Mr Kimble Sutherland (Oxford): Actually that's okay.

The Chair: Oh, it is now.

Mr Sutherland: They've taken me off the speakers' list.

The Chair: Okay. We'll do our regular rotation then. We're going to go with—

Mr Phillips: I think he's taken you off right now.

Thank you. I want to start by chatting a little bit about the size of the problem and then about some of your suggested solutions.

As I listened to you, I got the impression you felt it wasn't as large a problem as some of the other witnesses have indicated to us. One of our witnesses felt that the biggest loss of revenue was in the personal income tax area. I think you felt that wages and salaries are being pretty well reported. Am I summarizing your views accurately, that in your professional view, the problem is not substantial and not growing dramatically?

Mr Poddar: No. When I said the problem is not large, I was really commenting in the context of international comparisons, that Canada is much better even today than many of the countries around the world. People give the example of Italy among the developed countries, how extensive the underground economy is, even in France and of course the developing countries. When I say it's not large, it's really in that context.

Of course it is growing in Canada, but it's growing in particular segments. I still believe, in the case of wages and salaries, it's virtually nil, extremely small.

Mr Phillips: When you say "wages and salaries," I gather you're talking about significant companies that have to report. Some other witnesses have said that because so many people have now become self-employed, if you will, operating one-person businesses, that that has been a dramatic increase. Would you include that as wages and salaries?

Mr Poddar: I wasn't counting that as wages and salaries. But even there, it's really the smaller, sort of casual workers. If you're working full-time in a store, it's pretty difficult to avoid tax on that. But I have seen instances where people are working for a few hours a day, not full-time, not on a permanent basis, and there, yes, salaries get reported as self-employed income and taxes may be avoided in that case. I was really focusing on full-time employees and in their case, non-reporting is virtually nil.

Mr Phillips: The reason I raise it is that one of the big revenue losses in the province has been in personal income tax. Personal income tax revenue is down, as I recall the numbers, a couple of billion dollars over the last three years, while personal income tax rates have gone up, I think—I can't remember the exact numbers—a couple of billion dollars. There's an unaccounted for, if you will, reduction in revenue from personal income tax that seems unexplainable on a traditional basis. Your feeling is that it can't be the underground economy; it must be something else.

Mr Poddar: It could be the underground economy for the business portion of personal income. If the small stores are reporting personal incomes as business income, yes, there could be some decrease in it because of suppressed sales. But yes, I don't believe it is because of the underground economy on components like wages and salaries or investment income.

Mr Phillips: Your suggested solutions are not unlike some of the ones we've heard before. I think one of your suggestions is to use technology to expand reporting. You said earlier—I didn't pick it up exactly—that when the T5s were more broadly reported, you saw a dramatic increase in reporting of investment income.

Mr Poddar: When the T5 requirement was first introduced in the mid-1960s for interest income, at that time there was a huge increase in interest income that was reported for tax purposes.

Mr Phillips: What other areas do you think we should be looking at more broad reporting on?

Mr Poddar: There are a number of transactions where the reporting is virtually nil or non-existent or not very proper. Just to give you an example, for the international transactions, Revenue Canada brought in the requirement about two or three years ago that every transaction of more than a certain dollar threshold has to be reported on an information slip.

That is the type of requirement. At least it gives information to the government. Then they can selectively choose to audit and investigate whether this international transaction was proper or not. At the moment, I think you have to go sector by sector and decide what is the nature of the compliance gap and what sort of information reporting requirement you can have.

The example I gave was for the contractors, because there's no reporting requirement for contract payments at the moment. That's where, particularly after the GST, there's some more concern about tax avoidance. If you put in some sort of reporting requirement, with or without withholding tax requirement, then you may have some effect. At the moment, I can't give any concrete ideas about other areas for reporting requirements.

Mr Phillips: So your first suggestion is to find ways, as renovations take place, that it is more broadly reported. Is that a fair statement?

Mr Poddar: Particularly a withholding tax of 10% or 15%. But if you simply have reporting requirements, people don't really follow them, particularly individuals. Corporations have no choice. But if you put a 15% withholding tax, which is creditable, against the final income tax paid by the contractor, that'll create a very significant onus on reporting of that income.

Mr W. Donald Cousens (Markham): I continue to be impressed by the quality of the presentations we have, and I apologize for not being here at the beginning of yours. The one thing you're raising, and Mr Phillips was touching on it a bit—your example of the jewellery industry just rang bells right through my head. I hadn't remembered some of the transactions I've seen go on around me. It's fascinating that I hadn't really locked in on that as an area where there is a tremendous amount of underground economy.

You talk about sector-by-sector review. Take the jewellery industry. Do we look to the industry to help us? Let's just stay on that one. I know how cooperative the industry is. I'm amazed at how honest these crooks are. Therefore, do we use the police as a way of doing it? Do we use the industry as a way of doing it? Have you any thoughts how we as a committee can suggest that it be stepped up so that we have a more thorough, honest, accurate review of what's happening there?

Mr Poddar: One can only talk in terms of broad themes. This study for jewellery that we did was done at the insistence of the Canadian Jewellers Association.

Mr Cousens: Amazing.

Mr Poddar: They knocked on the doors of Finance for several days: "Please do something about the underground economy, because honest large retailers are losing their shirts to the independent operators, stores operated by the owner-managers. Big companies are going under."

Mr Cousens: Peoples has gone. It's just terrible.

Mr Poddar: When we went and talked to them, yes, they gave us all the details we wanted. Even the owner-managers of the small stores who were involved in the underground economy—

Mr Cousens: How do we do it, though?

Mr Poddar: I think what you have to do is that for each sector you sit down with the responsible people and you develop a system. I can't tell you all the details as to what system you develop because that really requires for each and every industry what action can be taken. But if you sit down with a group of industry representatives—by "you" I really mean the tax authorities—and develop an action plan, that'll be more fruitful than having broad-brush approaches.

Mr Cousens: I think it is too, and how we work together on it.

You being from one of our most distinguished accounting firms, I'll tell you one final thing that happened. I had an accountant last weekend, when I was out line dancing, tell me that he has had to turn down three clients within the last several months because what they're carrying on is dishonest. They're so locked into the underground economy that if he were to look at their books and audit them, he couldn't do so without bringing forward the problems they've got. How frequently does that happen within your industry?

Mr Poddar: We have very strict rules internally that if you smell a rat, please walk out.

Mr Cousens: But how many are walking out?

Mr Poddar: We do turn down, not because we know exactly what the smell is, but if we suspect something may not be proper and the client will not cooperate in these matters, we walk out.

Mr Cousens: I hadn't heard an accountant be as blatantly open as that. Because of our examination, the public is starting to realize what's going on and he's just saying, "Hey, that's a problem for me." He's losing business because of his integrity. Others may be profiting under the guise of being professional. It's hard to comment on that rhetorical question.

1040

Mr Poddar: No, I think it's true. All I can say is that I don't necessarily see all the clients in Ernst and Young, which is such a large firm, but I do know, based on the conversations at lunch tables here and there, that people are very strict about these matters.

Mr Sutherland: Thank you, Mr Poddar, for your presentation. I wanted to ask you a couple of questions. You talked about a sector-by-sector review. I don't know if you can leave a copy of this study with the researcher; I'd be interested in looking at some of the details of that study. You've talked about simple laws, and I just want

to get an explanation. Do you mean a simplified tax system or do you mean the actual tax laws in place being easy to understand?

We've heard presentations say that having different forms of taxation is good, because if someone's able to avoid income tax, then maybe you can get him on the sales tax or some other type of thing, and that's how you ensure enforcement and ensure that people pay their fair share. Yet we've heard other people say that our tax system is too complicated.

The other thing is that I believe that in some of the information we were presented, either you or others have suggested or you've written about the fact that sales tax should be all federal and then the provinces should look after income tax individually. I was wondering if you could comment on those two things. If we were to go to that system of federal sales tax and provinces doing income tax, do you think that would help deal with some of the problem?

Mr Poddar: There are two parts to your question, as I understand it now; one is simplicity of each individual tax, and the second has to do with the multiplicity of taxes. Tax laws can be complex because you have too many taxes, and a given tax design may be very complex. I think you have to address both questions, and both are becoming a cause of concern in Canada.

My comment about food versus non-food was really related to the design of a particular tax, which is the PST or the GST. The borders you have in the PST between taxable and exempt items are so ludicrous that nobody who is not a tax professional can keep up with them on a day-to-day basis. You have borders within children's clothing and adult clothing; footwear below \$30 and more than \$30; food and non-food; books, textbooks and other taxable periodicals. The list goes on and on.

You may have heard the story about, I think it was Mr Don Regan, when he was Secretary of the Treasury in the US; then he moved to the Chief of Staff position in the White House. He was in a very prestigious investment house before he came to the US administration and he had a very prestigious job as US Secretary of the Treasury, and people asked him, "How do you compare the two?" He said: "Well, the big difference is that in the private sector, when I ask my subordinate to jump, he says, 'Yes, boss, how high?' In the Treasury, when I ask somebody to jump three feet, he says, 'Yes, but how do you measure three, and how do you define a jump?'"

In the tax laws, each and every word is given a particular meaning. In fact, 90% of the tax laws are dictionaries. When you don't have a comprehensive tax law, you have created too many dictionaries, and that's where the professionals come into the picture. I make my living quite often simply by defining words differently from what the government does. Now, it's avoidance, not evasion, but still it's a cause of confusion.

When I came to Ernst and Young, the very first job I had, I walked into an office of a colleague of mine who had all the dictionaries piled up on a desk, Webster's, Oxford and this and that, and she was looking for the definition of a Popsicle, what a Popsicle is. Under federal sales tax, a Popsicle was taxable, but some other products

which are made of ice were not explicitly defined to be taxable. So now you have a variety of products which are not necessarily called Popsicles. Imagine spending your life defining what "Popsicle" means.

What kind of tax policy is that, where a Popsicle is taxable and something is not? The federal government brought in the law initially, saying chocolate bars are taxable. Manufacturers argued: "I don't have a chocolate bar; I have a chocolate square. A bar is rectangular, and my product is a square." Indeed, the last thing I did before I left the federal Department of Finance was to table an amendment in Parliament, of course through the minister, defining "chocolate bar" to include a chocolate square. But this is the name of the game. If you have partial, incomplete, non-comprehensive tax laws, you create incentives for it.

The big companies will avoid tax by going to professionals, saying: "I don't want to pay tax on chocolate squares. Please tell me how to avoid it. Then we'll define the word 'chocolate bar' not to include chocolate squares." A small guy says, "To hell with it, these are both exempt, because chocolate squares are tax-free; this is the same product." Do you think the small guy's making a mistake? He's avoiding or evading the taxes. He's just applying his common sense. The chocolate bars are taxable, the squares are not, but most likely, when he punches in the cash register, he doesn't even have two buttons for the squares and bars. He just has one button for chocolates. Both are exempt.

Mr Sutherland: Could you comment on the sales tax and income tax, federal and provincial?

Mr Poddar: I think the multiplicity of taxes helps, but only to a certain extent. Right now in Canada, you've reached a stage where you've got too many taxes.

Take the example of payroll taxes. You've got CPP; you've got UI; you've got employer contributions, employee contributions; you've got employer health tax in Ontario; if you go to Quebec, there's a supplementary tax on financial institutions; now you have a tax on self-employed people—each with their own definition of what are wages, what are not wages, each with their own ceilings, each with their own periodic remittance requirements. Some taxes you pay on January 15, some other tax on January 16, some third tax in July and some other tax on a quarterly basis.

When you have the multiplicity of taxes, how do you expect the business community to cope with it? I've spent two thirds of my life dreaming, sleeping, eating, working with the tax laws, and I've reached a stage where I cannot advise my clients on more than one or two taxes.

Here you have a high school dropout running a small store, and the moment he opens the door, he's expected to know about at least 10, if not 15, different taxes and comply with them voluntarily. Now, let's count them: GST, PST, employee contributions and employer contributions for CPP and UI. There's four potential calculations. You've got the employer health tax. You've got corporate income tax instalments. Then he's got his own personal income tax payments, not only the instalments but also the final returns to be filed.

When you have all these taxes—and I challenge you today—you cannot find one professional who can give you proper, complete, authentic advice on all the taxes today. I spend a lot of time on GST and income tax. I was out of the country for a month, and when I came back I had to scratch my head when a client called me about GST advice. Amendments are coming out almost every day from the governments, and if you're gone for a month, you feel out of date. I call that complexity, which is not conducive to compliance, voluntary or involuntary.

The Chair: Mr Poddar, thank you very much for presenting before the committee this morning.

Mr Poddar: Thank you.

CERTIFIED GENERAL ACCOUNTANTS
ASSOCIATION OF ONTARIO

The Chair: Our next presenter is Gary Porter, immediate past president of the Certified General Accountants Association of Ontario. Please come forward and make yourself comfortable, and whenever you are ready, you may proceed with your presentation.

Mr Gary Porter: Thank you, Mr Chairman. Good morning, ladies and gentlemen. As an informal comment at the first, I found myself nodding my head a lot in agreement with the previous presenter. In addition to being the immediate past president, I'm also a partner in a firm of certified general accountants, so I'm in public practice myself and found myself in sympathy with a lot of these comments. As a matter of fact, perhaps in questions and discussion, I'll have an opportunity to comment further on that.

I appreciate the opportunity to appear before the committee as a representative of the Certified General Accountants Association of Ontario. Understandably, the underground economy is of more than passing interest to professional accountants who, by definition, are part of the control and accountability mechanisms of a largely self-reporting tax system. Helping our employers and clients comply with the system is a professional requirement and a public obligation. We have of course an obligation at the same time to help them minimize legitimately their tax burden.

1050

While the underground economy is not directly related to either objective, it can have a great deal in common with them in terms of two of the three broader issues: taxpayer moods, attitudes and actions. The point of departure between the underground economy and the economy generally is not in moods and attitudes but in taxpayer reaction to the system.

The underground economy is unlawful revolt. Other taxpayers revolt in different but lawful ways. Both forms of revolt have their impact. Both result in losses to public treasuries. People move assets out of the province, move businesses out of the province or out of the country; they move themselves out of the province or out of the country. That's a perfectly legitimate way to avoid a tax system they no longer feel they can live with.

However, the underground economy is apt to receive more urgent, focused attention because it is a form of

social anarchy. While having no argument with the need to deal effectively with social anarchy, I suggest it would be appropriate at this time, for purposes of my presentation, to examine the issue in the larger context to which I have already alluded: taxpayer dynamics as a whole.

The attitudes of taxpayers individually and collectively are shaped in many ways. In general, I would summarize the main factors as: under public sector revenues, the overall tax burden, the combined effect of income and consumption taxes and the fairness in spreading the burden; under the general heading of public sector expenditures, what value taxpayers feel they get for dollars spent and expenditures within the means of taxpayers to ultimately pay the bill; other factors include the general economic conditions which, as we know, vary from time to time but don't seem to have varied too much over the past three or four years, and consumer confidence.

Let me quickly relate these factors to what taxpayers are saying, to give you my view of the cause-effect attitudinal relationships at work in our system.

The overall tax burden has become more readily apparent with the continuing development of consumption taxation. In particular, the highly visible PST-GST combination at a combined rate of 15% is a constant reminder and irritant to consumers for four main reasons.

First, the GST is visible where the manufacturers sales tax that it replaced and extended was not. Second, it is characterized as a value added tax. Tax professionals know what that means but the average consumer looks at this and says, "Value added? Where's the value?" They think, "What value will I get from the government for the additional tax?" Third, they see a 15% tax on what is described to them in other contexts as an after-tax income. Fourth, consumers with the least after-tax income see a consumption tax as imposing the greatest relative burden upon them.

There's actually a fifth, which is the irritation of having to do the calculation if you're going to make a buy-or-not-buy decision. I see a price in a shop window and then I have to add 15%. Every time I do that—I personally don't find it that difficult—it still irritates me; I think it does for a lot of people. I travelled in France. They have an 18% VAT but it's in the price. Do I want it at that price or do I not? I walk in the shop and pay that price. I don't pay that price plus something else. Initially, I was an advocate of the "No taxation without information" view, but that irritation factor is certainly big.

Public sector institutions are often seen as big business without the same dedication as the private sector must have to such matters as cost-effectiveness, value for money, rate of return, control and accountability. Typically, taxpayers do not see the incremental value for incremental taxes. Where quality of product or service is not a concern, the cost of their provision is often seen to be too high. In general terms, the widely held attitude is that taxpayers should not yield additional dollars to the public treasury unless the added value is greater than they could achieve on their own. As stakeholders in the public sector, they are thinking like shareholders or entrepreneurs in the private sector.

Under current economic conditions, producers of goods and services and consumers of goods and services share a common, least-cost, best-deal philosophy. Taxes at point of sale can become a powerful consideration among consumers of goods and services in choosing among alternatives.

Under these circumstances, taxpayers are acting essentially in one of two ways: tax avoidance on consumer spending or tax evasion through the underground economy.

Taxpayers who are in any event lacking confidence in the economy and accordingly are not highly motivated to spend are becoming more selective and reserved. Their level of resistance to consumption taxes is very high.

Another trend is that of producing one's own consumption, the do-it-yourself phenomenon. This approach depresses both consumption taxes for work that might otherwise have been contracted out and income taxes that would otherwise be levied on the contractor.

Consumers feel cheated when their income or disposable income is appropriated by taxing authorities by what they consider inappropriate means. They are not emotionally motivated to comply with the mechanics of a consumption tax system. Rather, feeling cheated, they're more inclined to cheat themselves. In the absence of an effective point-of-sale means to enforce compliance, they may be unable to resist the temptation to evade the tax net. This type of evasion requires collusion with the supplier, who can be equally motivated to participate, not just to make a sale but for income tax purposes as well.

Certainly, one of the things that I find is that if they weren't paying income tax before, they're sure not going to pay GST on it now. If you discover that they've been avoiding, do you—the other thing too is that you file, say, 12 times or four times or whatever and you have to report taxable supplies, if you report taxable supplies in sales for GST purposes. So if you file the GST return and you show so much in terms of sales, then that better be what's on your income statement for tax purposes.

As was being discussed to some extent when the previous presenter was here, the two sort of help to police each other. But they are just as effective at driving things out of the total legitimate economy, because as I say, if you were avoiding it before, you sure won't pay the GST. Whatever way the taxpayers chooses that it's going to work for them, it's going to work consistently for income tax and GST. It isn't necessarily going to help collect more taxes; it's going to work consistently.

Cash transactions with both the supplier and consumer colluding to evade taxes have a major impact on tax revenues. The loss will typically involve GST, PST, business income taxes and often personal taxes too, all as part of the same process, and often personal taxes too, if employees receive part of their payment in unrecorded salaries.

In any case, the business income tax lost will not be simply the profit component of the sale, but also the tax effect of the costs incurred to make the sale, such as the wages and so on that may not be recorded through the official payroll system.

Bartering of goods and services is another approach to the underground economy. As taxpayers generally become increasingly aware of such styles of business and consumer practice, the issue of fairness will surely tempt others into the lure; it is predictable human nature.

Smuggling is much in the news at the moment. It is only one manifestation, albeit especially flagrant, of what could easily become a more widespread problem. All it will take is for the attitudinal problem to set the stage for the type of ingenuity which has been brought to bear on the issues of tax avoidance to be deployed in the field of tax evasion. I guess a simpler way to say that is that the human mind is eternally creative and has a great imagination. If people feel they're being left out, and really it's becoming okay to evade tax, then the number of schemes will multiply.

Some suggestions:

(1) Integrate the approach to consumption taxes at the federal and provincial levels. I would add simplify as well. The previous presenter was talking to some extent about the kinds of odd rules that exist in the provincial sales tax and in the goods and services tax. If these were consistent rules that could be applied consistently, if you had one set of rules and they were simpler and you didn't have to worry about two taxing regimes and so on, it would be a tremendous benefit to business. As a matter of fact, those are the kinds of benefits, in my opinion, that are worth far more to business and add more to profit of business than a lot of government handout programs to business.

(2) Incorporate tax effects in posted consumer prices to eliminate the constant irritation when, for example, a ticket price of \$719.99 becomes \$827.99 at the point of sale. This should apply to all consumption taxes; for example, as is now the case for gasoline.

(3) Recognize the limits of tolerance and the elasticity of the relationship between consumption and rates of consumption tax and the ultimate impossibility of control by suppression and punitive measures in a free society.

(4) Encourage consumer confidence by all reasonable means.

(5) Continue to emphasize at all levels of the public service the need for responsibility, accountability, added value, expenditure reduction and control over the use of revenues raised through taxation, and to inform the public of goals set and results achieved.

(6) Involve taxpayers as part of the solution rather than as part of the problem through education and information about the role we all play as stakeholders in the economy and shareholders in government of the province's social structures.

1100

The Chair: We'll start with the Conservative caucus, Mr Carr. We have about 10 minutes per caucus.

Mr Gary Carr (Oakville South): Thank you very much for your presentation. I appreciate it, and also the way it's laid out. The suggestions are very good.

I just spent two days going around on our small business task force listening to small businesses, and quite frankly got an earful from small business through-

out mostly southwestern Ontario about governments at all levels and of all political stripes with regard to taxation.

One of the questions that came up was the question of the PST and the GST. One of the questions I asked, and the vast majority of them said they'd like to it incorporated, was, "Would you like to see it hidden?" I think politicians would love to hide it because when the debate came over the GST, it would have been very easy. Most people didn't know there was a manufacturing tax and that it was hidden.

Almost to a person, when I asked small businesses in the last two days—and we literally had meetings from 7:30 in the morning till 10 o'clock at night, so we must have dealt with hundreds of people in small groups—there wasn't one who said he would like to see it hidden so that the consumer doesn't see it. I think the reason is that then there is the potential for it to be increased and no one knows. Sneaky governments of all political stripes could do that.

Number two, you seem to be saying that because it's an irritant, you should actually hide it, sort of bury it and make it hidden. As somebody who's involved in accounting and as politicians, I'm sure you and a lot of them would like to do it. But the small business community that I heard from in the last two days, and this came up about the GST and the PST at almost every meeting, when I opened it up and said, "What do you think?" there wasn't one person among the 10 or 15 people in there who said it should be hidden.

How do you deal with a situation where you're calling for it to be hidden when small business is saying, "We don't want to take it because they're going to think we're going to get the money when it's you greedy politicians who are taking the taxpayers' money"? How do we sort of balance that? Maybe you'd like to comment.

Mr Porter: I have quite a list of small business clients, so I also deal all the time with small business and I don't quite know how to account for the difference between the views I keep hearing from them and the views you heard from small business.

The Chair: Excuse me, Mr Porter, could you please sit closer to the microphone. Hansard's having difficulty here.

Mr Porter: I say that I'm not quite sure how to account for the difference in attitudes I hear from my own small business clients and the attitudes that were expressed here.

One of the things is that if you can make it explicit and if it's an add-on you have to do at the cash register, then it's also something you don't have to do at all. If it's already impounded in the price, it's in the price; I think psychologically it's harder to not collect it. Then the government, of course, has to make sure it gets remitted, but I think it's harder not to collect it if it's just part of the price.

The other side of this transaction, though, are the buyers, and I think you might find it very interesting to start talking now to consumers about the irritation of the calculation when they're trying to make the buy decision. A lot of consumers, I find, just wish that would go away:

"Just tell me what the bottom line is. What do I have to pay for this?"

I think it shouldn't be a hidden tax. There should always be a requirement to post that the price includes 15% taxes so that people know there is tax involved and what the rate of tax is, and if that rate changes, that sign has to change.

Mr Carr: For what it's worth, I think that's probably what will happen at the federal level. One way they'll get around dealing with it is to make it hidden, but that will be a debate going on for the next year or so. I guess we'll hear from different groups. Maybe in the next go-round that we have, we'll hear something different.

The other question I have relates to the whole issue of taxation. One of the problems we've got with governments—and I don't say just this government but all governments do it—is that when it comes to taxation, whether it be corporate tax or personal income tax, they say, "Here's where we compare to Manitoba; we're here." It makes it very confusing, but the bottom line is that our jurisdiction here in Ontario—in the same task force, one of the people who came was with an American company. He was an American and he came up and he said: "You know what? I can't believe that people in Canada willingly pay these taxes." He was from, I guess, North Carolina and he said, "Ontario is a great place to live and a terrible place to do business."

But when you bring up the issue of taxation, and I say this not to blame this government, governments pull out, comparing other provinces and their high versus the US. How do you see the whole issue of taxation competitiveness when we're competing with US jurisdictions where the tax rates are less? We hear they are. The bottom line is, how competitive are we with our US neighbours?

In this task force, as I went around, there was property tax and giving grants and so on, the whole issue of taxation. Percentage-wise, how would you compare Ontario to our neighbours to the south with the tax structure? Quite frankly, I trust you to know that better than anybody. How do we compare?

Mr Porter: Ontario is a costly tax jurisdiction. There's no question about it. I think a fair comparison—was talking with a friend of mine who some of you may have heard of, Professor Vern Krishna, who is a tax professor at the University of Ottawa, just last night and I was talking about making this presentation.

He said that he had seen recently—I asked him to forward it to me but I didn't get it in time—a study done in the United States which indicated that whether you tax high or whether you tax low or whether you add taxes or take away taxes, what gets paid is something like 29% of the gross national product in taxes or for a certain body of services provided by the public sector. After that, people don't pay tax.

What they're essentially telling the government is: "We'll give you 29% to 30% of the gross national product, you spend it as wisely or as foolishly as you want, but you're not getting any more. At the point where your debt costs 29% of the gross national product you'll

be broke, but you won't get any more from the taxpayers." The inelasticity of the willingness of taxpayers to pay tax seems to be increasingly evident, and rather than the ultimate solution being how do we dragoon more money out of the taxpayer, the ultimate solution will have to be, how do we live within our means?

Just in terms of the comparison, I think one of the things, when you're talking about Ontario or any other Canadian province compared to US jurisdictions, is that you have to consider what's provided privately versus what's provided publicly. I think it's clear, for example, that the Canadian medical system is far more efficient than the American medical system, that it costs far less to provide a lot of basic medical services here than it does in the United States. That's a point that's been made by Clinton and it's a point that's been made by Diane Francis in the *Financial Post*, where she says we should take our efficient system, mark it up and sell it to the Americans.

I think it's a pretty broad spectrum of political hues that agree that we have a very efficient medical system. But that system here is paid for through employer health tax and general revenues whereas in the United States, up to and including now, it's a private cost and is therefore not part of the tax system.

There are other things like this that you have to factor in when you really say, what is the cost? You have to combine the private and public costs and then see, am I getting a fair deal?

I have some colleagues who've actually moved to the United States who say on balance they don't believe it's that much cheaper to live in the United States in terms of the kinds of services you would look to the public to provide. They get better deals in terms of this or that, cars, clothes, that sort of thing, but not really in the area of public services or services that we provide publicly and some of which are provided privately there.

Mr Carr: This relates to the consumer confidence. One of the problems with consumer confidence is that governments have taken so much tax that people are fearful for their jobs and then also of tax increases, whether it's property tax or increases at the federal or provincial levels. I think a lot of that has scared consumer confidence. It's a combination of the fact that people are worried about having a job and then also they've seen a greater chunk taken out. This isn't just provincially with the taxes; it's happening at the federal level the next couple of years.

You know there are some economists who say if you actually had a tax cut it would stimulate some people to then spend. Knowing our financial situation both federally and provincially, as terrible as it is with deficits and so on, do we need to cut spending before we have any type of tax cut, or would tax cuts be helpful now to get us back down to that 29% that you say we're getting anyway? What would you suggest the Ontario government do?

Mr Porter: Tax cuts are a direct form of stimulus. It's like government spending; it can be a direct form of stimulus, such as is being proposed at the federal level now.

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Mr Carr: Which would you recommend between the two?

Mr Porter: Neither.

Mr Carr: Yes, there is the other option: neither.

Mr Porter: I would not recommend cutting taxes for the moment, because I don't think we can afford to cut taxes, given the debt load that we're carrying. What I would like to see is some kind of serious commitment—I mean, I don't know how you get a serious commitment out of governments—to do two things: reduce the deficit and not raise taxes, which only means you have to cut expenditures. Then you have to let a year go by and you have to come in on target.

We know that with the current situation it's difficult to predict revenues, but the people in the Ministry of Finance here and the Department of Finance and Revenue Canada in the federal government are in the best position to make those estimates. There's no private organization that I know of that has as much information or detailed data to make those forecasts and so on.

Mr Carr: A dartboard might be as accurate, though. Thanks for your help. It's been very informative.

Mr Sutherland: A dartboard's more accurate for playing the stock market, according to the *Toronto Star*.

Thank you for coming forward, Mr Porter, because it was suggested that we have some of the accountants in to talk about some of the issues. I have a couple of questions.

If we accept your premise that you can't increase taxes, and you're saying we shouldn't necessarily cut them at this time, if we pick up Mr Poddar's comments about simplifying the system—it always seemed to me that for the purposes of collecting the GST, if you did a simplified system, for example, if I operate a variety store; you put out some estimates, 80% of the product sold in a variety store is GST, so each month remit 7% of 80% of your sales. It would make it a heck of a lot easier for everybody to do things.

I think certainly what we're hearing from you and what we've heard from Mr Poddar is that to run a small business you have to have an accountant. Now, that's good for the industry, but I think in terms of when you're talking about, and Mr Carr was, the burden on small business, what we can do to simplify the tax system may have just as much positive impact in terms of generating more revenue and people feeling less like giving up as would doing any of the other initiatives.

Mr Porter: So?

Mr Sutherland: Do you see that type of simplification in collection of a GST, as I suggested, from a business standpoint having any positive impacts?

Mr Porter: Yes. I really think what should happen is that the provinces should get together with the federal government, work out a single consumption tax and divide the take. We should have the same set of rules so people don't have to worry about it and simplified application like that for very small enterprises.

To some extent that exists now under the GST rules.

Make that uniform, a consumption tax. "These are the simple rules. There's one tax. We'll worry about how we divide it up." The levels of government can divide up the take, like personal income tax, where they pay one personal income tax to the federal government and the federal government remits back to the province.

The corporation tax, where there's now Ontario corporation tax and a federal corporation tax, frankly, from a taxpayer point of view, why are they filling out two tax returns and dealing with similar but not the same sets of rules? Why do we have an employer health tax at all? Why is that not just paid for out of general revenues like everything else? It seems to me there are some fairly obvious ways to simplify taxes.

Mr Sutherland: You are saying that we should go back to the system that we had with the manufacturers sales tax, where you can market the bottom price, basically, or what the final price is the consumer has to pay in terms of the tax being there.

Mr Porter: The tax-included price. I'm not saying the manufacturers sales tax; I'm not recommending going back to a manufacturers sales tax.

Mr Sutherland: No, sorry. I was referring to the situation when the manufacturers sales tax wasn't on top of the price, that was actually included in the price; likewise with gasoline.

Mr Porter: That's right. It's included in the price.

Mr Sutherland: We have the consumers' association coming in this afternoon, so I think that may be a good question to ask them as well in terms of the irritation factor, because I think all of us hear that tremendously. So whatever you could do to avoid that may also deal with the issue of voluntary compliance.

Mr Porter: The funny thing is, I think, if some government, whether it's the federal level with the GST or the provincial level with the PST says, "We're going to now allow the tax to be included in the price," you're going to sound like you're trying to hide it and it's something fishy here.

I'd be really interested to hear what the consumers' association has to say about it, whether they're going to speak more in terms of lots and lots of information for consumers or whether they really have done any work to find out what consumers think.

Mr Norm Jamison (Norfolk): Thank you for your presentation and the time you've taken to inform the committee of your views. I think that's very helpful.

I found it interesting in your comments when you started to talk about health care here and the United States. Health care basically accounts for one third of our budgetary demands year over year. That in itself is much different in a direct sense, in direct taxation, but health care being so important to the health of the community, there's an economic factor built in there.

The way we fund our health care system has actually some positives to it. For example, the auto sector finds it to be a competitive advantage to have health care provided the way we provide it rather than have to pay an employee employment cost. There's a two-edged kind of situation there.

Just commenting on your comments, the statistics as we know them indicate that non-compliance with the tax system seemed to just take off like a rocket as soon as the GST was introduced. I agree, people felt this was just simply obnoxious at that point too, and the reaction was there.

The speaker previous to you indicated—I think he indicated clearly—that the red tape, the paperwork is nightmarish for small business people and business people in general and that there needs to be a streamlining to reduce that kind of burden, which really doesn't talk about the money itself, but talks about the effort and the time it takes a business person to comply. I say those things are important.

One last comment I have on your presentation: In my opinion, and with all courtesy intended, it is rather simple to say, "Take 29% of GDP and use that for tax purposes." That's all well and fine if you're starting at zero. The problem is, at the federal level, 33 cents of every tax dollar is going out in interest and probably more than that at this point; provincially, it's in the teens.

To go to that simply and apply that and say, "Yes, we'll do that, we'll do that tomorrow," the amount of dislocation, given that equation, services and so on, would be just horrendous, absolutely horrendous.

I'm a strong believer that we have to streamline the system to, where possible, unify the tax system and make the remittance much easier. I'm not sure, over the short term, whether or not it would be possible either at the federal level or the provincial level to significantly reduce taxes to add a real stimulus.

I agree with you on the gasoline tax. Certainly, it's one price and people understand that those taxes are built in.

Those were just some comments. I was interested in hearing your—

Mr Porter: I agree. I think there is a competitive advantage. I think there actually is a competitive advantage to the way we do fund health care. My comments over here were that in order to understand—you can start with the statement that Ontario is a high-taxing jurisdiction, but to that you have to add the statement that we include medicare in that cost. In the United States, you have to add that as a private expense to your taxes in order to do a fair comparison.

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The other thing is, don't get stuck on the number 29%. It was an informal discussion over dinner. There is a percentage, but I don't know what it is. And it's not about a policy recommendation. This study showed that's what taxpayers are willing to pay and it was indicating to governments that's what you will ultimately have to be willing to accept, because that's all anybody's going to pay. After that, they just find ways of avoiding or evading tax. It's extremely inelastic. They just hit this percentage and that's it. In a free society, that's all anybody's going to get.

I guess I should get this study in Florida to you folks, because it's the upper limit. You're not going to get any more after that no matter what any of us do, unless we solve the unemployment problem, by hiring tax auditors

and police. That's the limit. So it's not a choice; it just is. Out of that will have to come interest on the public debt and out of that will have to come whatever services we think we need in the community, whatever the social safety net construct has to be and so on, but that's it. I was saying that if the interest on the public debt reaches that number, then you can't provide any services, because taxpayers won't come up with any more money. They'll either avoid, evade or leave, or their revenue-producing assets, factories and shops and so on, will leave. So there is that ceiling.

Mr Phillips: I add my thanks to you. Let me start with an issue about your feeling on how big a problem this is. The reason I asked others as well is that we've had a range of opinion, from "Lighten up a bit, this isn't that big a deal" to "The sky is falling; we're on the edge." Is this in your judgement a significant and growing problem that requires us to focus a fair bit of attention on or is it a minor little blip in the scheme of things?

Mr Porter: I think it's a significant problem. I think there is growth in it. I don't feel panicked by it. As I said in the presentation, while tax evasion is a form of social anarchy, I don't think we're facing the collapse of modern society as we know it or anything like that.

The size is difficult. You almost want to ask an accountant last, because we're not given to come up with estimates unless we have some information. It would be entirely hearsay and speculation. I actually think the Ministry of Finance, the Department of National Revenue in Ottawa and Statistics Canada probably have more information than any of us would ever have in terms of production values and all those kinds of things. They could make better guesses than any of us can.

My only evidence is really anecdotal and from personal experience, like yours. Most of us participate, willingly or unwillingly, in the underground economy. How many people here have bought a hot dog outside SkyDome from a hot dog vendor, not inside but outside? How many people have taken a cab? How many people have given a tip to a doorman? How many people eat in a local restaurant where the drawer is open?

Mr Phillips: Monte Kwinter sells them hot dogs; he doesn't buy them.

Mr Porter: We all do participate in that, but none of that is new. That's been going on for as long as we've been around and our parents have been around and so on.

Mr Phillips: We are having difficulty getting an estimate from officials. I think maybe they don't have it. Also, there is concern by some that the more you talk about it, the worse it gets. I think there's an apprehension there.

On solutions, because we have to turn our attention eventually to what things we might look at, one area of solutions that seems to be coming forward is finding ways to use technology to improve the reporting systems. The earlier speaker talked about T5 forms, someone else has talked about reporting of house sales now, new car sales, stocks, all those sorts of things. In your judgement, are there other areas where we could be using technology? Building permits, reporting—I think the previous

speaker had some other suggestions. Is that a worthwhile area for us to pursue and are there any suggestions for us there?

Mr Porter: There aren't many significant transactions now that aren't tracked in some way for tax purposes. Mostly what you're concerned about, I think, in terms of underground economy are overtly illegal acts such as smuggling. Some of the smuggling, I think, is more documented exports that never in fact leave the country. It's hard to track something at the border that never leaves the country. The paper says it went out of the country and then came back, but it never did go out and come back; it just stays here and gets sold. So increasing the border guards will be totally useless for that type of activity.

Some of this, by the way, no doubt involves some official collusion too, but the best way is to reduce cash. I think the move by the banks, rather belatedly here compared to some countries in Europe, towards debit cards and moving more transactions officially through banking records will be one of the most important ways of eliminating the cash economy, and that's where the action is in terms of the underground economy. Anything that reduces cash transactions, cash drawers, will reduce the underground economy. It's very hard to do it through bank transactions.

Mr Phillips: I almost hate to get into this area because I think this is where the public are most suspicious of government, but in the audit areas I think the last thing we should probably be doing is hiring thousands more auditors. Are there ways we can use the existing resources far more effectively? I too hear from small business sometimes that they're faced with three or four different auditors who are coming in. Is there anything we should be looking at in that area?

Mr Porter: I know Revenue Canada is now combining their GST auditors and their income tax auditors, so the same person—they're training them in both—comes in and does both types of federal taxation. They'll do corporation tax, your personal federal tax, your GST, one-stop shopping, "We'll nail you three times in one visit."

Revenue Canada uses the term "clients." They refer to all of us as clients now, not taxpayers. I don't know what public relations firm thought that up, but it probably causes more resentment than it gains in terms of—but I think that's a good move. You have to increase the quality and decrease the number of visits. Probably the quality of the person you're hiring would have to be stepped up. They'd have to be trained, for example, in Ontario corporation tax, provincial sales tax, EHT compliance, that sort of thing, and do it all at once.

The paperwork burden is tremendous. The first person any entrepreneur has to hire is a government paperwork person. The previous speaker listed about eight or nine; there are another three tax compliance kinds. Workers' compensation for an employer is just another form of tax. It is a huge cost for complying with all these different taxes.

I think the other thing, though, and I don't know whether anybody's paid attention to this, is really looking

at getting rid of the Ontario corporations tax and integrating it with the federal corporations tax, integrating provincial sales tax with GST, getting rid of the employer health tax and paying for health, like everything else, out of general revenues. Those would be major steps towards reducing government. We don't even recommend in our firm very often that people take advantage of government grants, subsidies and what not for business. Most of them also are very narrow; you don't get much out of them. The paperwork burden is tremendous; the definitions are too narrow. Compliance after you get the money makes me rich; it doesn't help the business. Except for the small business loans program at the federal level, we just say: "Avoid them. You'd better spend your time out there hustling up business and making money that way," because it's just too much paperwork.

Mr Phillips: So a really strong theme from you is simplification.

Mr Porter: Simplification, reduction of paperwork, reduction of the audit—your notion on making auditing more efficient and less annoying, having three auditors come in or whatever, would also be valuable. It would create less hostility too among taxpayers.

The Chair: Thank you, Mr Phillips, and thank you, Mr Porter, for making your presentation before the committee this morning.

Mr Porter: Thank you.

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ROGER SMITH

The Chair: Our next presenter this morning is Roger Smith, economist from the University of Alberta. Welcome to Toronto.

I want to inform the committee, and Mr Smith as well, before we proceed, that we will be having a vote, I suspect, at 12 noon and at least one person in this committee would want to attend that vote. Therefore I would suggest, because Mr Smith has come from Alberta, that we return to the committee following the vote for any further opportunities for questions and answers. I believe everyone would be in agreement with that, seeing as how it was indeed the committee that invited Mr Smith to come here in the first place. Mr Smith, whenever you're ready please proceed with your presentation.

Mr Roger Smith: Thank you, Mr Johnson. It's a pleasure to be here. I believe you have copies of my presentation, which I will go through.

It was in the late 1970s that Peter Gutmann and Edgar Feige in the US came up with their first estimates of the underground economy in the US, which were quite large and surprised a lot of people. Following that, my colleague, Rolf Mirus, and I, using methodologies that had been developed by Mr Feige and Mr Gutmann and Vito Tanzi of the IMF, did some estimates for the Canadian underground economy for 1976 and came out with estimates that were between 5% and 22%, with our best guess at between 10% and 12% of GDP. In terms of current-day GDP, that's somewhere between \$75 billion and \$100 billion, and if we look at the general tax take, it may account for as much as \$30 billion in forgone revenues. So it certainly is of some significance.

Unfortunately, Statistics Canada, Revenue Canada and the academic community seem to have generally neglected this topic, and the net result is that we don't know nearly as much as we might know. We find that one respected economist within the last few years has claimed that the underground economy broadly defined might represent, in the most conservative estimates, approximately one third of major GDP, and in the higher estimates as much as 100% of major GDP. So we do get large estimates.

With limited other evidence, we found that our earlier estimates have been referred back to by many and we still get many calls, and this led us to question how applicable our estimates for 1976 were for the situation today. What has happened since the late 1970s that would cause us to believe that the underground economy has either grown or shrunk in its importance?

Although we have limited confidence in our methodologies, no alternative seems to have a clear advantage, especially if you consider that simply asking people will not elicit truthful answers when they're talking about income-earning activities that are going unreported. So the results of our updating of our 1976 estimates to 1990 showed underground economic activity in 1990 at somewhere between 15% and 20% of GDP; in other words, somewhat higher than the 1976 estimates.

This result is also consistent with estimates derived from recent IMF—International Monetary Fund—work. We find that John Wilson of the IMF found an unexplained currency growth in Canada between 1970 and 1990 of \$4.7 billion. If we take that currency and using M1 velocity, or the narrow definition of money, we find that this amount of unaccounted-for cash would support roughly 10% of GDP in terms of economic activity. If we assume in 1970 it was around 10% and we've had another 10% since 1970, that gets up around 20% again. I might note that this 15% to 20% range is consistent with the most recent estimates by Mr Feige out of the US, which may or may not be corroborative evidence.

The rest of my comments address three questions: First, what factors may have contributed to continued growth in the underground economy since 1976? What are some of the problems that accompany the large underground sector? And, third, what measures might reduce the size of the underground sector?

Turning first to factors that may have contributed to continued growth since 1976—these are probably things you've heard before—personal income tax as a share of personal income net of transfers rose from 15.2% in 1976 up to 19.7% in 1990. Direct and indirect taxes rose as a share of GDP from 38% to 43% from 1976 to 1990.

I might mention that on the plane coming out here I was reading a paper by a colleague at the University of Alberta where he was trying to figure out what the marginal tax rate was for Albertans. He came up with, for people with a \$30,000 income, that the marginal tax rate is now around 60%. How does he get 60%? It's taking federal and provincial income taxes, it's adding on the GST, it's adding on UI, it's adding on CPP, it's adding on the health charge in Alberta. When you add all those together, for somebody earning \$30,000, the marginal rate

seems to be around 60%.

These rates are high, the tax take is high, and this is happening at a time when confidence in government has not been growing; indeed, since the mid-1970s it's been deteriorating.

It's also a time when, increasingly, Canadians are aware that taxes as a share of GDP in Canada have been rising, whereas it's been steady or declining in many OECD countries. Italy's the exception, and of course Italy's well known for the size of its underground economy.

A third factor since 1976 is that unemployment rates have been substantially higher. In the 10 years prior to 1976, they averaged 5.2%. In the 10 years following 1976, it was 9.3%, and we know it's continued substantially above that level since then. Those who are unemployed are in a position to increase their casual or informal activity and may have the incentive to do so as they collect unemployment insurance. There's no certainty here, but there is some evidence that UIC and informal economic activity can become a way of life.

Fourth, US studies have shown that younger taxpayers are more likely to report non-compliance, and once on a track of non-compliance, there is evidence that returning to the compliance track is not very likely. If this is so, with the aging of the population, we would expect an increasing rate of non-compliance. This also means that while rate increases may push individuals underground, lowering rates may not bring them back aboveground.

A fifth factor since 1976 is that the self-employed in the unincorporated and incorporated sectors grew from 11.1% in 1976 to 14.5% of total employment. The self-employed in Canada grew by 71% during this period, while all other workers grew by 25%. While the small business sector may be the engine of growth and highly flexible, it's also where much underground economic activity occurs.

Indeed, if we look at evidence from the US and the UK both, we find that only 60% to 65% of income that's arising in the self-employed sector is in fact reported. I don't think there's any reason to think it would be substantially different in Canada.

Sixth, the number of immigrants has increased in recent years, and business immigration has accounted for a growing share of immigrants in Canada. The number of immigrants doubled from 1981 to 1992—this is annual immigrants—and the number of business immigrants quadrupled. Again from US studies, there's evidence that underground economic activity is present to a higher degree among recent immigrant communities, both because of their small business nature and because of informal business relationships.

Seventh, the 1987 study by the IMF on the world currency account discrepancy found that "reported portfolio investment income is the fastest-growing, and now the largest, of all individual current account discrepancies." In other words, interest and dividends reported by companies as paid abroad are much larger than the amounts reported as income by the recipients of these payments. Debits exceeded credits by US\$33 billion in

1984. This had grown to \$90 billion by 1991. It's not strictly a Canadian phenomenon, but Canada has participated in the tremendous growth in capital flows during the 1980s.

The large growth in capital flows since 1976 would be expected to have a major impact on the dividend and interest flows on equity and bond investments. This is likely to be an area of substantial underreporting.

Eighth, we're all aware that in 1991 the federal government of Canada imposed its GST, which was a sizeable tax on services as well as, previously, manufactured goods. The result was an added incentive to underreport economic activity, particularly in service industries where much of the value added occurred in the final provision of the service.

If we look at an earlier study of Germany and Britain, we find that they were aware that higher taxes contributed to underground activity, "particularly when major changes were introduced, such as the imposition of value added tax on services in the UK in 1973 and the replacement of the turnover tax by the value added tax in Germany in 1968." That study was done well before the GST, so in a sense it could have been anticipated that this would have an impact.

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A recent study, which no doubt you're well aware of, found some dramatic growth in cash holdings after the goods and services tax was introduced in 1991. Obviously, there's still limited evidence on the impact of the GST, but there is some evidence that it's contributed to growth in the underground economy.

Why should we care about a large underground economy? There are a number of reasons from an economic policy perspective as to why we should care.

First of all, our official indicators are going to be off base. If underground activity accounts for \$50 billion of activity, that's one million people at \$50,000 a year of activity, so clearly it can have a major impact on the real level of unemployment that we're talking about in the economy. It certainly can have an impact too on our measures of GDP growth, if there are differential growth rates in the underground sector relative to the official sector. It can have an impact on our official measures of inflation if in fact people are purchasing services through the underground at constant prices, whereas prices elsewhere as officially measured are changing, and it clearly has an impact on things like our measurement of savings.

As I note, consider the case where a carpenter and an electrician swap their services and each adds a major addition to his or her home. That's not going to be reflected in income and it's not going to be reflected in any change in their net worth. It will be a real change in their net worth, though.

A second reason for concern is that in some cases the underground economy may also alter the effectiveness of monetary policy. This may currently be more important in countries such as the US and Germany than for Canada because more of their currency tends to be used abroad. In fact, one recent study in the US found that

very large amounts of US currency were used outside the US. In fact, there were some estimates that much of the failure of the expansionary monetary policy from 1990 to 1992 in the US was due to the fact that much of the growth in the money supply was currency that was being used outside the country, so in fact the money supply was not growing like authorities thought it was and hence was not stimulating the economy as authorities thought it was, and this may have contributed towards President Bush's loss because of a slow turnaround in the economy in the US.

I'm not saying this is happening in Canada, but it's something we've got to be aware of, because certainly the Canadian currency, relative to many, is relatively strong.

Third, tax systems relying on self-assessment and a reasonable level of honesty are no longer viable if unreported income is a large share of total income. Italy has recently imposed a tax on the presumptive income of small businesses because of the unreliability of income reporting by small businesses in that country. A presumptive tax of that sort is seen as unfair and it may not continue to exist in Italy, but it's the sort of thing you have to do if there's a very high level of informal activity.

Fourth, where the underground economy accounts for a large share of total economic activity, clearly, failing to tax it leads to greater deficits, and we know what we're confronting now in terms of deficits.

Fifth, tax systems will not and cannot be perceived as fair where underground activity is sizeable. Support for the public sector will erode and public services will be undersupplied. A shift to indirect taxes and away from direct taxes may occur—and this is precisely what happened in New Zealand in the mid-1980s—and the redistributive goals that might be addressed by direct taxes can no longer be addressed because of that shift.

Before moving to the next section, I do want to acknowledge that there are perceived advantages in having the outlet of the underground or informal economy in the sense that it tends to be more flexible and free of government regulation and can adjust to a changing economy more rapidly. It may mean that inflation rates are lower, so there may be some advantages.

Possible corrective actions: There is no simple action, as will come as no surprise to anyone on this committee, but a series of actions may be helpful. I suspect that previous people have mentioned the need for broader tax bases and lower tax rates. Tax reforms of the 1980s in Canada and elsewhere moved towards broader bases and lower rates. None the less, there are still possibilities for that, whether it's taking away the savings incentives, the registered pension plan deductions, the RRSP deductions and things of that nature. I'm not saying there aren't reasons for that, but if you take them away, you will get a broader tax base and you will have lower rates being possible, and that may be helpful.

Similarly, with respect to the sales taxes, when you're exempting food and certain other items, you're narrowing the base and having to apply higher rates, which again is increasing the incentive for tax avoidance and evasion.

Second, we also must attempt to link taxes closely with benefits experienced by taxpayers. There is evidence that taxpayers are more willing to pay taxes when they see some benefit directly coming to them from that payment. Obviously, with some downloading, there's been an effort to do some of this closer tying of taxes and benefits. But clearly again, to the extent that our taxes support things like health, education, welfare, equalization, by their very nature we're not going to be able to tie the taxes too directly to the benefits that are being received.

Third, there's much evidence that compliance, particularly for the small business sector, needs to be kept as simple as possible. The previous speaker addressed that. I think this is a major issue for the GST and is related in part to the narrower base for the tax, a base which excludes some items and includes others. The issue is even more important in Ontario than it is in a province such as Alberta, which doesn't have an RST.

Fourth, there's an argument for tougher enforcement, but careful thought is needed in this area. You could have tougher enforcement which would encourage people to get involved in non-taxable activity and either move them out of the tax and encourage them to do more do-it-yourself activity. That's not going to be productive if you get that result from tougher enforcement. You may also find that it forces people into non-filing, whereas previously they were filing. If they were then audited and penalties were imposed, they may simply stop filing in some cases. You have to be confident that that's not going to be happening if you toughen up enforcement.

A further word of caution is required here in that studies in the Netherlands have found little agreement among taxpayers and tax inspectors concerning who is and who is not cheating. That may or may not come as a surprise, but many of those who know they're cheating are not found to be by tax inspectors and many who truly believe they are being honest are found to be cheating. I don't know if that sort of thing would be found if you did a similar study in Canada, but it might well be. Of course, in that sort of situation, if you tighten up enforcement you're not necessarily going to get productive results.

Fifth, there's a growing need for greater international cooperation in tax enforcement. Germany, for example, repealed a withholding tax on interest income because it would lead to a large flow of funds to Luxembourg and elsewhere. Similarly, Canadians derive growing amounts of investment income from foreign holdings. Revenue Canada cannot keep track of the investments held by Canadians in the US or other countries. At least, it can't do so without close cooperation with other countries. We can't expect small businesses in the service and other sectors to respect the tax system if they perceive that large amounts of investment income escape taxation.

The general conclusion is that the problem, which was already sizeable in the late 1970s, has probably grown, and perhaps grown significantly, since the late 1970s into the early 1990s. I think there's a good reason to devote resources to the task of obtaining better information and understanding of the role of the underground economy in Canada.

It was mentioned during the presentation of the last speaker that perhaps Revenue Canada, the Department of Finance, Statistics Canada have a good deal of information. If they do, they're not sharing it with us. Certainly, selective auditing might have a result, but until we have good information on the types of actions currently being taken by Revenue Canada in identifying those sectors, whether they're males, whether they're single, whether they're under 25, whether they're in particular types of business activity—until we have details on how they're going about their auditing process, it's difficult for us to have confidence that they really are generating the information they need to help make this a lesser problem.

The Chair: Thank you very much, Mr Smith. We have about 10 minutes per caucus, understanding, of course, that we will have to take a break to vote.

Mr Sutherland: It's good to meet you in person, Mr Smith. I thank you for an excellent presentation in terms of identifying some of the outstanding issues regarding this and some areas that can be followed. I was wondering if you would care to comment, picking up on some of the discussion with the other presenters this morning, the question of visible tax versus a tax incorporated in the actual prices, and this discussion we've been having in terms of what methods you could possibly use to deal with issues such as the private home builders, the renovations. How do you get a handle on how much of that activity is going on? What techniques may be available there?

I heard from a small business person that they were losing money to the underground economy from some of their own employees because their own employees are doing it after hours, undermining their own business, and then they get laid off and pick up the business of the company they were working for. Do you have any ideas on those couple of issues?

Mr Smith: First on the question of visible tax, one is always torn here because accountability suggests that taxes should be visible. But I think the politicians have for years been fairly aware of the fact that a tax tends to be somewhat more palatable if it is not as visible, and that's why in fact we've had many taxes that were not so visible.

1150

I find that hard to argue. As an academic and an economist, I would like people to be aware of the information in terms of the taxes they are paying in order to make decisions. On the other hand, maybe that's a bit naïve in the sense that there are certain redistributive policies that have to go on throughout our system, and in order to generate the revenues to support those, there may be some argument for taxes which are somewhat less visible.

I don't find it an easy question to answer, but I do think there is reason that taxes have been hidden historically in many cases, in that they tend to be somewhat less objectionable, somewhat less identifiable targets if they are hidden to a degree. If you're looking to support government services and get minimum reaction, there is undoubtedly some benefit in that. I'm not very comfortable making that argument, but I think it's true.

With respect to getting a handle on what's going on in terms of whether it's renovation contractors or others who are going into the informal economic activity, I don't think there is any easy answer to that. What is the incentive for them to do it? We know it's a matter of tax rates, for one thing, the taxes they'd have to pay if they didn't do that. We know it's a matter of paperwork and the administrative costs if they actually do everything the government would like to have them do.

This clearly is the argument for trying to make sure the marginal rates are as low as possible by broadening the base. That's one aspect of it. Another aspect of it is the selective auditing and tracking. I don't have any answer as to how you go about that particularly effectively.

Mr Monte Kwinter (Wilson Heights): Thank you very much for your presentation. I was interested in a couple of sections in your presentation, and I just wanted to get your reaction. You say that US studies have shown that younger taxpayers are more likely to report non-compliance. You also then go on to say there's evidence that returning to the compliance track is not very likely.

You also state that another reason we have this growing underground economy is the influx of immigrants, the implication being two things: By their very nature, they are entrepreneurial and are more likely to have opportunities not to report income; also, I assume they come from jurisdictions where the underground economy is a fact of life.

So we have a situation in Canada where the natural birth rate is just about level and there's no population increase coming that way. The only population increase we're going to get is from immigration. We have a system where the underground economy is a relatively new phenomenon for older people. It's been around for a long time, but it's certainly come to the public consciousness in relatively recent times. So you have youth who are going to be less and less likely to be concerned about the fact that they're participating in the underground economy. You have the only growth in our population coming from immigration.

It would seem to me that what we are getting into is a situation where the underground economy is going to become almost institutionalized in the Canadian economy. How do you address that? How do you address a situation where those very elements of our society are the only ones that are going to be increasing? Older people are going to be dying off; new people are coming through with this experience. How do we as legislators and you as a person concerned about this address that from a systemic point of view?

Mr Smith: I'm waiting for the difficult question.

I would observe one thing: I think it is institutionalized. I don't think it's a matter of waiting until it becomes institutionalized; it's been very significant for a long time. It may have been growing, but I don't think we can talk about it becoming institutionalized. I think we're there.

The addressing of it, I really don't know how much more I have to say than what I've said. I think governments are attempting to address it and I think that many

of the ideas are proper ideas. There's no question that part of the move to broaden bases and lower rates during the 1980s was recognition of the kind of marginal rates that existed, which simply were encouraging increased levels of underground activity.

There have been more studies that have been done by governments, at least outside of Canada—we don't know what the official activity is in Canada—which have attempted to identify those sectors where underground activity is likely to be most prevalent—again, whether it's by gender, whether it's by age, whether it's by type of business and so on—and try to do more selective, more effective auditing in order to provide people who are being fair about paying their taxes with some confidence that if you're not paying your taxes, you're likely to get caught.

I think there's an effort to try to—maybe Margaret Thatcher was an aberration of sorts, but nevertheless the move to try to tie services more directly to the taxpayer is clearly a part of it so that individuals see there is direct benefit from taxes they pay. I think we have to think more about how we do that with respect to our redistributive policies, and we are thinking more about it; ie, rather than unemployment insurance, which simply is a payment and you do whatever you want during that period, having funds that are tied to making people more productive, more mobile, things of that nature. I, as a taxpayer, am going to be more comfortable if I know those moneys are likely to make that person more productive in the future rather than simply support him during a period of unemployment. That may be a little simplistic, but I think those sorts of measures are the only way we're going to get it turned around. It is going to be a long process because it is large, it is institutionalized, and it's not only a phenomenon in Canada; it's elsewhere.

I think also there's a growing recognition that progress is very slow in terms of international cooperation. As each country increasingly confronts the difficulty of imposing tax laws because of the ability to realize income outside the country—even realize some of the benefits of that income outside the country, bring it back in and support a standard of living that's higher within the country—there's going to be growing international cooperation. That's going to be a slow process, and it's hard to be very optimistic about our getting a handle on that before it becomes even much more significant. But governments are increasingly going to experience pressure to cooperate internationally and share information and come up with systems that report my interest and dividend income flowing into my bank accounts in the US to Canadian tax authorities as long as I'm a resident in Canada.

The Chair: Five minutes left for the Liberal caucus.

Mr Phillips: I'm pleased you're here. You've probably spent as much time on this issue as anybody in Canada, I suspect.

Let's start with the size of the issue. As I read the research, there hasn't been a study done since 1990, and we've heard from others that the GST was another stimulus to the underground economy. What is your

current best guess at what the size might be right now? You say it may now be up to 20%. Where would we be seeing the lost revenue? Would it tend to be across the board, or are there any areas where it would be more focused?

Mr Smith: I think what evidence I've seen would suggest that you've got another percentage or two that's been contributed by the GST. The service sector was not subject to a federal sales tax prior to that, and that's where its major impact was. Many of those are small business people. Many of them are cases where much of the value added is in the final service provided, so the incentive for avoiding the tax is very substantial.

Where do you see the growth? Again, concentration is going to be in small business activity. What particular sectors? I haven't done a breakdown of that, but you do find it clearly in the home renovation sector, which is perhaps the largest common area where everybody agrees it's going on to a very large extent. If we look at the evidence that is available, and it tends to be evidence I'm aware of outside of Canada, you find that maybe 40% of all underground activity is small business sector activity.

Other large parts of it are clearly going to be informal activity, and I'm talking about unreported income in the small business sector. It's their normal business activity; it's just that somehow that money does not get incorporated into the tax reporting system. You're going to find other small, informal businesses, whether it's moonlighting or whether it's the person who's working for the small business contractor who's going off on his own, which are not usually recorded in the small business sector because it's just another informal activity going on; that that's not a small business, it's just another activity.

There's certainly evidence that things like rental income are very substantially underreported. You rent out your basement suite to a university student. Does that rental income get incorporated in your reported income? In some cases, I'm sure it does, but the evidence seems to suggest that's another area, rental income, where a substantial level of activity goes on.

Mr Phillips: Your suggestion on taxing more directly: One of the challenges for government is that that is quite an attractive way to do things, but the risk is that it's new taxes rather than achieving your objective. I think we're going to see toll roads, we're going to see sewer and water charges, we're going to see several. Are there direct taxes you would suggest we should be exploring which more directly tie services to the tax?

Mr Smith: I don't think there are major revenue-raisers there. Part of the problem is that your general major revenue-raisers, which are your general sales tax and your general income tax, are not suitable for that kind of activity.

Coming from a university, there's no question that there's growing pressure to raise tuition fees and have those who benefit from the higher education pay more. They may be paying 20% to 25% of the full cost now; get them up to 35% to 40% of the full cost and then have income-sensitive methods of repayment. That certainly is again linking the payment for the higher education more directly to those who are receiving the benefit.

The Chair: If I may interrupt you, Mr Smith, we are being called to the House for a vote. When the House votes are concluded, we will return here for a short period of time to complete our opportunity to discuss this matter with you. This committee is recessed.

The committee recessed from 1203 to 1215.

The Chair: The committee will come to order and we'll resume our questions posed towards Mr Smith for some very valuable answers, no doubt. Mr Phillips, were we with you at the time we recessed? I can't remember.

Mr Phillips: That shows the impact I'm making.

The Chair: I believe we were.

Mr Phillips: I was asking whether he had any suggestions on direct taxation. By the way, I wasn't thinking about raising more revenue; I was thinking about how you tie the existing revenue more closely to a perception of services.

Mr Smith: I understand that, but again part of the problem we face is that revenues as a share of our gross national product are very high. If we're going to do any substantial tying and not increase revenues, it's going to mean a substantial shift from some of the really major taxes, which are our general sales taxes or consumption taxes and our general income taxes. Given that so much of that revenue is being used to support programs which are related to health, education, welfare, and equalization too, for that matter, it is hard to tie the benefits directly to the taxes, because by definition they're redistributive.

The sorts of programs we hear about which make sense to me are where we look at health care and we recognize that a certain share of the cost is going to have to be borne by those who are consuming the service, perhaps up to a certain percentage of their income. In other words, the importance of providing the care is not to be questioned and the importance of it being universally available is not to be questioned, but perhaps we need to think about protecting the lowest-income people from having to pay for health care, although maybe there's even a minimal amount they should be paying directly when they utilize the health care, but beyond that, perhaps it's a matter of saying you'll be paying for your health care directly up to x per cent of your income. Because we're protecting you against any excessive, unexpected illness and we're not going to let you be financially ruined, as is the case in the US for that sort of thing, we acknowledge that we're going to have to pay directly for those services, so we're acknowledging the cost of those services up to a share of our income. What share that may be is something the politicians would have to determine.

Mr Phillips: That's a very interesting thought in that one piece of advice we've had is that if you can find ways to get more people on lists, if there is one thing we all probably use every year in some form or other, it's health. If there are significant numbers of people who aren't even filing income tax returns, for example, if one of your goals was to find ways that you link the two, that's a very interesting thought. Is that a side benefit that someone like yourself would see in this?

Mr Smith: It certainly helps you track the population.

I suspect there are other ways of tracking the population too. Basically, that was not my thought. This was not a matter of bringing people out of the informal economy—

Mr Phillips: A sting operation.

Mr Smith: —and on to a tax list. That may be a side benefit and there may be, through improved data management, a benefit there. This was a matter of more directly tying expenditures.

In other words, it would do two things. It would clearly get people paying for some of the services they are consuming directly, so that when they go into a clinic or whatever and pay, they realize they're getting a service for that payment. In addition, if you're covering some of your costs by that mechanism, your marginal tax rates obviously can be somewhat lower because you're raising revenues in another fashion.

Mr Phillips: The Fair Tax Commission is something we have here in the province looking at taxes, and it has declined to present to us, for a variety of reasons, I guess. But they no doubt will recommend moving quite a few things off property tax and on to income tax and dramatically decreasing property tax. Strictly from an underground economy view, do you have a point of view one way or the other on that approach?

1220

Mr Smith: I think the answer has to be jurisdiction--specific, for various reasons. I do not have detailed information on the Ontario property tax, but my perception is it's been enormously difficult to move to a sense where this tax is a fair tax, whether it's based on wealth or other aspects, the assessment practices and the difficulties of moving to market value. The perception is, if you made a major move to market value, the hit it would place on people who have had properties well below market value for a long time would be unfair.

If you're moving from a tax which is generally seen to be unfair and therefore a real problem in terms of overall perceptions of taxation in the government sector, then maybe there's some logic in it. I happen to be one who feels there is a real role to be played by property taxes. I may be in a minority with respect to economists in that I see a real purpose in retaining some of that role at the local level for support of education, whereas I know there are many economists who would argue that education and services such as that should be financed by an income tax generated at the provincial level.

Again, people make choices with respect to what services they want. There certainly is reason for equalization to a degree, to ensure that local communities can support a given level, a minimal level certainly, of public services such as schooling, but above that, I think property taxes can help to tie expenditures to some of the benefits. If people want to go beyond that level in given jurisdictions because they have particular services they want to purchase, again, that's tying the benefits more directly to those who are making the decisions and buying the goods.

If you centralize everything at the provincial level by eliminating property taxes for school purposes, and have it all done at the provincial level, clearly you're removing

that to a significant degree. It's getting your marginal tax rates up there and it's separated the benefits from the taxes and contributed to this perception, "I'm not getting value for my money so why should I be paying taxes?"

Mr Carr: Thank you very much for your presentation. I apologize for running in and out a little. It's a busy day. Some days like this I think I get more exercise here than I did when I played hockey, but I appreciate hearing your comments.

One of the questions I had was one of the ones I actually heard Mr Cousens asking on the way out, because he wanted to get an answer too, with regard to the other jurisdictions we should be looking at. Are there any other countries, provinces, states that you would say are the successful ones that we should take a look at even further?

Mr Smith: I'm not aware of any country having made a really substantial turnaround in this problem in short order. The example which most frequently comes to mind, for everyone else as well as for me, is the New Zealand case, where indeed there was a very substantial reduction in income tax rates in the mid-1980s, a very substantial increase in indirect tax rates, with a movement to a value added tax at substantial rates.

Part of the rationale for that was that whereas the higher income tax rates were forcing people into the underground economy, you weren't recapturing any of that when they spent the money either. There was certainly a restructuring of their social programs as well, in order to bring those marginal rates down and try to tie the benefits more directly to the people who were paying the taxes.

I'm not aware of any studies that have been done which look at the underground economy in New Zealand before and after that, so that you can say the effect has been measured and it was significant and therefore you should do it. It would be nice if I could give an example like that. I'm not aware of any evidence of that sort.

You do find some indications from US estimates that following the deregulation and the lower tax rates of the Reagan years in the mid-1980s—again it's Edgar Feige's estimates, but from the mid-1980s on, he does see some decrease in underground activity as measured by these aggregate measures. From something like 1986-87 up to 1991-92 there is some evidence of a decrease. Is that definitive and can you be confident that if you did that kind of base broadening and rate lowering you'd get that result? It's hard to be confident based on the evidence, but it is a constant with other thoughts.

Mr Carr: As an economist, what would your recommendation be, knowing the financial position of the province, with regard to the tax structure? Is there any room to reduce taxes, or would you much rather see us reduce the spending? If the tax rates were reduced, as has been done in other jurisdictions like that, do you think that would stimulate some consumer spending? We're hearing that the reason they are not spending is, number one, they're fearful for their jobs and, number two, they're scared of taxes increasing and losing more disposable income.

If you were sitting as the Finance minister of the province of Ontario, what would you tackle? Would you try and reduce spending, reduce taxes or, as the other chap pointed out, do neither?

Mr Smith: My comments reflect that I think there are some things that can be done, which, for whatever reasons, this country has chosen not to do. Some of them are constitutional. One of them is making sure you've got harmony between the GST and the provincial sales tax. This country is capable of providing that kind of harmony and there is no question that the additional paperwork of having two very different separate taxes is a real nuisance for a lot of people who have to pay tax. Nevertheless, for a variety of reasons, the jurisdictions have decided to keep those taxes separate. That's going to simplify things, certainly.

Another thing that can be considered and I think ought to be considered is broadening the base of those taxes, including food in the tax base. You've got mechanisms through income taxes to provide tax credits, refundable credits and so on for lower-income people who need to have the redistributive actions. You've got other ways of redistributing income rather than doing it by exempting certain items and complicating the tax base by doing so. There's no question that that's a route.

Also, if this problem is recognized as a serious problem, you have to look at things such as retirement savings plans. The evidence is mixed on the extent to which retirement savings plans, whether they're registered pension plans or registered retirement savings plans, encourage savings. You'll find evidence on both sides.

Let's set that evidence aside, and if I say it's not very conclusive, I think that's a fair and objective view. If you say it's not very conclusive, then there's a strong argument for, again, incorporating those sorts of things into the income tax base in order to lower rates, which again is going to affect the marginal decision as to whether I pay tax or whether I don't, because it's the marginal rate that determines how much I've got left when I make that extra effort.

That's going to go over like a lead balloon with respect to many people who are convinced that the RRSPs and so on are central to generating capital pools in Canada. I'm not convinced of that, but there are some who are. Again, that lowers rates.

Mr Carr: One last question, regarding payroll taxes. They are fairly easy to do and it makes it difficult to put them in the underground economy. I don't know if you were here when I explained I'd spent the last two days going across mostly the southwest part of the province dealing with small businesses. In meeting after meeting, they said the payroll taxes are killing jobs, and they used as some examples the employer health tax and so on. It's easy to collect, and a lot of people would say that would prevent the underground economy.

Small business, on the other hand, gave me examples of the number of people they lost when it came in and so on. They said, "It's the last thing we want as small business." These are small proprietors who own menswear stores and so on. "No more payroll taxes of any kind." What would your recommendation be with

payroll taxes, knowing that, one, they help eliminate the underground economy but, two, you've got businesses saying they are killing them? What would your recommendation be with regard to payroll taxes for the province of Ontario?

Mr Smith: There are different payroll taxes, obviously, for different purposes. I have to think about which payroll taxes the province of Ontario really has control over.

Mr Carr: Employer health.

Mr Smith: You've got the health one and you've got workers' compensation. To the extent that those taxes are related to benefits that are received, I think there's a purpose in keeping them; ie, having workers' compensation taxes, which are in some way related to the probability of injury.

Mr Carr: Well, they're not.

Mr Smith: Otherwise, it's simply an additional tax burden on those where they're paying a heavy tax but there's no return to them, and there's no question that it's inefficient. That kind of tax is going to be better supported by a general revenue source because you're not tying it to the benefit and what you've got is a flat-based tax. Again, I'm not directly familiar with the Ontario one but it tends to be a flat-rate tax which is over income of a certain range and then it disappears. Those kinds tend to be very regressive taxes which are clearly increasing the cost of labour and are not related to the actual cost of that labour in certain types of activities. It makes no sense economically. Better that were funded through a general tax such as a sales tax or income tax. With respect to health care, again I could say the same. It's not likely to be related to the benefits in individual cases.

It certainly has not been related to ability to pay. So what is the relationship, other than it's an easy tax to collect across a broad spectrum of workers? The arguments are fairly tenuous and not very convincing, as far as I'm concerned.

Mr Carr: Thank you very much. I know you came a long way. We heard about your reputation and we're very pleased that you took the time to share with us.

The Chair: Mr Sutherland still has five minutes, I understand.

Mr Sutherland: I just wanted to ask one question that's come up a couple of times and that is that both from a competitiveness standpoint and as a way of dealing with the underground economy only the federal government would have sales tax and then the provinces would have their own income tax systems, and that it's better for the federal government to generate money from sales tax and the provinces setting their own income taxes. I am wondering if you had any comments on that and whether you think that type of move would have any real impact on the underground economy.

Mr Smith: Again, the answer depends on the extent to which the different levels of government are willing to cooperate with respect to the tax systems. There's no question, if there's limited cooperation between the provincial and the federal level of government, that you're going to have a more complicated tax system

which is very difficult to deal with, particularly for the small business sector, if all of the players continue to be active in all of the fields.

That seems to be the case right now and I think that's one of the reasons why you find a lot of discussion about giving the provinces the sales tax, or the income taxes, and the federal government having the other. I don't think there's any reason why we can't have a tax system—certainly from an economic point of view, again I have to leave the politics to those of you who are involved in it—but I don't think there's any reason why we can't be able to coordinate a common tax base and tax system so that both the provincial and the federal governments are involved in the sales tax and the income tax areas. I think there's reason for them both to be involved in both areas and I am not one who would promote one for one and the other for the other. Maybe that makes me less dynamic than some, but that's where I'm at.

The Chair: Thank you very much, Mr Smith, for making your presentation before the committee both this morning and this afternoon. I hope you have an enjoyable rest of the day in Toronto.

Mr Smith: Thank you for the opportunity.

The Chair: This committee is recessed until 3:30 this afternoon.

The committee recessed from 1233 to 1535.

ONTARIO FLUE-CURED TOBACCO GROWERS' MARKETING BOARD

The Chair: The standing committee on finance and economic affairs will come to order. Our first presenter this afternoon is the Ontario Flue-Cured Tobacco Growers' Marketing Board. Representing this board are Albert Bouw, the chairman, and George Gilvesy, the vice-chair. Welcome to the standing committee on finance and economic affairs. When you're comfortable and ready, you may proceed.

Mr Albert Bouw: Thank you, Mr Chairman. First of all, I would like to draw everyone's attention to an array of products that we've brought along. Maybe we can just kind of pass that around, if that's okay with the Chairman.

Interjection: Have you counted it before you start passing it around?

The Chair: If you're going to speak, you have to be in front of your microphone or Hansard won't pick it up. But otherwise, it's quite all right for us to have a look at that.

If you would please identify yourselves for the purposes of the committee members and Hansard.

Mr Bouw: My name is Albert Bouw, chairman of the Ontario tobacco board.

Mr George Gilvesy: My name is George Gilvesy, vice-chair.

Mr Bouw: As I suggested, we've just brought a sampling of what's available in the contraband world, for people to have a look at and maybe to understand as we go through our presentation what we're talking about. With that, I'll proceed.

Maybe I should let the committee members look at it first. Maybe you'd better, quickly.

The Chair: This is your time, Mr Bouw, and you can use it however you wish. I would suggest, however, that you leave some time for the committee members to ask you some questions.

Mr Bouw: The products that the gentlemen are looking at there, by the way, in the plastic bags, are equivalent of a carton of cigarettes, and you can buy that for \$15, two of them. There's another there with only a red dot on it. You can buy that product for \$10, and again it's equivalent to approximately 200 cigarettes.

As you can see, there are products there from the United Kingdom, there are products there that are manufactured in the United States, there are products there that are manufactured here. All are what we refer to as "copycat" and all are contraband products.

The Chair: The tobacco that's in the plastic bags, I haven't seen that directly, but that's cured and cut tobacco and ready to roll into cigarettes. Is that right?

Mr Bouw: Yes.

The Chair: And it's considerably less money to purchase than cigarettes that are rolled, I guess, manufactured?

Mr Bouw: When you buy fine-cut tobacco, and that's referred to as fine-cut, to roll your own legally, the cost is the same as when you buy a carton of cigarettes: about \$45 or \$48, if you pay all the taxes. To purchase that today, the way it's being sold, you can purchase that for \$15.

The Chair: Legally.

Mr Bouw: No, illegally. Maybe I should go through my brief and explain some of those things.

The Chair: Sure, that's not a bad idea. We can all indeed pay attention to what you're saying as we have an opportunity to look at your display. So if you'd like to proceed, I think that would probably be a good idea.

Mr Bouw: Thank you for allowing us the opportunity to make this presentation. We hope to use the tobacco black market to demonstrate how an underground economy evolves and its widespread economic and social impact. That's of course why we have products with us.

Let us first define the problem. In 1986, one in 170 cigarettes sold in Canada was contraband. Today, one in six is contraband. Most of the numbers outlined below are for 1992, so they're old numbers. In fact when we talk about one in six, today it's probably one in four. They increased dramatically over 1991 and indications are that we can expect an equally dramatic increase in underground activity this year.

Our estimate of the loss to the legitimate retail market and governments is approximately \$2 billion. The Quebec Revenue ministry believes this is conservative. It estimates a \$2-billion loss in federal tax revenues alone. Among our growers, the loss last year might have been as high as \$35 million at the farm gate—\$23,000 per producer removed from our local economy. Ontario's provincial revenues are hurt as well, perhaps \$200 million in lost revenue in 1992. We fear Ontario will follow the

trend in Quebec where the Revenue ministry estimates a \$450-million loss this year.

1540

Cigarettes are smuggled by ordinary Canadians at all of Ontario's 12 official land border crossings from the United States. On the Akwasasne and Six Nations reserves, criminals have taken advantage of aboriginal tax-free status to make illegal tobacco sales a thriving industry. All across the province, organized crime has set up intricate and elaborate networks to transport and sell contraband tobacco. Offshore manufacturers are producing and smuggling so-called copycat cigarettes, cigarettes designed to mimic Canadian brands and made exclusively for the contraband market.

The black market is not just smuggled cigarettes. Increasing amounts are being stolen right off tobacco farms in semi-processed form and from manufacturers, wholesalers and retailers. Violent hijackings and thefts are common across Canada. There have been violent deaths of those involved in the illegal trade and at least one innocent retail store clerk.

All this suggests something even more alarming. Canadian consumers have provided the market for the 12 billion to 16 billion illegal cigarettes sold in Canada last year. How did this happen? In 1980 there was no tobacco contraband problem. Canadian smokers paid 27.5 cents more per package than Americans. By 1991 Canadian smokers paid an average of \$3.10 more per package than Americans, an 11-fold increase.

Canadians in 1980 were prepared to pay a tax they perceived as fair. This view of the tax has changed dramatically. There is now a widely held view among both smokers and non-smokers that the tax is simply unfair and the avoidance of tax is acceptable.

The tobacco black market began as a cross-border shopping problem. Individuals smuggled cigarettes into Canada from countries with lower tobacco taxes for their own use or for their friends.

A contraband carton of cigarettes today can be purchased for between \$20 and \$30. The retail price is in the range of \$45 to \$50. I might add that I took a drive through the Six Nations reserve on Sunday and you can now buy a contraband carton of cigarettes for \$14. Using a contraband price of \$25 and a retail price of \$48, the black market consumer saves \$23 per carton. The black market seller nets a profit of approximately \$15 per carton. Profits of this magnitude inevitably attracted organized crime and sophisticated underground distribution and marketing networks. This is no longer a cross-border shopping problem.

In addition to smuggling, the market has been flooded with so-called copycats. Copycats are cigarettes blended to taste similar to Canadian-manufactured cigarettes and packaged under brand names such as—and that's what's gone around the table now—Putter's, that's in the blue package, DK's in the red package, Canada Goose in the green package. That's why we refer to them as copycat cigarettes.

They're trying to copy—for example, I personally

smoke Player's and it's a copy of that. The red package is a copy of du Maurier. The Canada Goose is a copy of Export A. They're all takeoffs and that's why we refer to them as copycats, or for example, in the tin, which would be a fine-cut, by RJR-Macdonald, this one's called conveniently Mac, the same colour. I think you get the idea of what we're talking about—copycats.

They may or may not contain Canadian tobacco and this is where we start to get very concerned as growers. What makes these products unique is that they are manufactured solely for the Canadian black market. These products cannot be purchased legally in a retail store nor does there exist a domestic market in the country in which they are manufactured.

Of illegal cigarette seizures in 1992, 45.4% had been manufactured outside of Canada. Of these, 63% were copycats. Copycats hurt Canadian growers, manufacturers and retailers. Canadians continue to smoke, but are increasingly turning away from Canadian product.

We have already stated that retailers lost \$2 billion in sales last year to black market tobacco. Thousands of Canadian manufacturing jobs are threatened when 40% of an expanding black market is made up of foreign-source product. Ontario tobacco growers and the communities we live in are also threatened.

Ontario's tobacco marketing system is governed by the Ontario Farm Products Marketing Commission, a division of the provincial government. Fifteen hundred farm families produce tobacco in this province. The farm-gate value of the crop this year is in excess of \$300 million. Tobacco production in Ontario is concentrated in Norfolk, Elgin, Oxford, Brant and Middlesex counties. The annual direct impact on the economy, according to a Peat Marwick, Stevenson and Kellogg study, is \$600 million in wages and salaries, \$500 million in business income, \$3.85 billion total impact on the provincial economy and over 27,000 person-years of employment.

It is very difficult to know what kind of dollar impact underground tobacco has had on our producers. As export tobacco is priced at a lower rate than domestic, we have estimated a loss of about \$11.5 million on the non-export of DFX, short for duty free and export to the US. A report by Lindquist Avey states that in 1992, 15 million pounds of DFX was brought back into Canada. We, as growers, likely lose most of the income on 5.9 million pounds of tobacco smuggled into the country in the form of copycats. We certainly lose most of the income on 3.5 million pounds of tobacco in foreign brand-name cigarettes smuggled into the country.

In addition, our orderly marketing system is threatened. If I could expand just a little bit on why we're so concerned about that—we are supply management system under the auspices of the Farm Products Marketing Act and ultimately if this continues, tobacco production in Ontario will no longer be needed if you follow this thing far enough out and if we allow the continuation of the manufacturing of these copycat cigarettes, which is not necessarily Canadian-grown tobacco at all.

Ultimately, Canadian or Ontario consumption could stay at the level where it is today, with the normal type of declines, but the product could be all offshore product,

therefore eliminating or having a very, very strong impact on the four counties where the majority of the tobacco is produced.

As I said, our orderly marketing system is threatened. This threatened marketing system starts at our board's controlled auction exchanges and ends at the retail level. Tobacco leaf must be sold through our exchanges to licensed buyers. It is our most important function to ensure that controls are placed on the growing and selling of raw leaf. We have found it necessary to formally urge our growers to become more aware of security around the kilns and pack barns where they store their tobacco and of their own personal security.

We have recently denied an application for a buyer's licence to a dealer after the discovery that tobacco had been purchased at export prices, shipped through the United States and into Quebec to circumvent the Ontario marketing system. The tobacco advisory committee, chaired by the province of Ontario, concurred in this decision and, believe me, ladies and gentlemen, the last thing we want to do as growers is curb licences. We're there to sell tobacco, not take licences away from people.

At the next level of the marketing system, legitimate manufacturers are careful to conform with packaging regulations, especially with respect to health warnings and tax-paid status. Contraband sellers, as can be seen from the sample packages brought for your examination, are not so conscientious. Once again, none of those markings are on those packages.

Legitimate retailers are careful to conform with laws against sales of tobacco to minors. Contraband cigarettes are readily available to minors at less than half the cost of retail cigarettes. I think that's a very outstanding statement.

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Measures are in place for an orderly, regulated marketing system. As we have demonstrated, black market tobacco disrupts these measures at every step. This problem has become pervasive and is growing.

High taxation and high taxation alone has created this problem. A tax rollback and a tax rollback alone will solve it. Additional taxes will only aggravate the problem. With a problem so widespread and worth so much money to the criminal element, increased police activity will not solve the problem. Even the RCMP and the Quebec provincial government, who have attempted stepped-up enforcement, agree that a tax rollback is the only answer.

A tax on exports of Canadian tobacco is not the answer. An export tax would hurt only the Canadian tobacco industry. Even without an export tax, foreign-based products now account for about 40% of the contraband market. I might add here that when federal government year over year put the \$8 export tax on, all of a sudden there were 22 brands at our borders waiting to come into Canada, 22 brands we'd never heard of before. So that's not the solution.

Special packaging to show the tax-paid status of a product is also not the answer. The province of Ontario carries the yellow strip around the package. The copycat blends have distinctive packaging and are not tax-paid.

Smugglers often change markings on their product to indicate it is tax-paid. These people have got sophisticated equipment.

In addition, Toronto police, RCMP and customs agents broke up a counterfeit cigarette operation earlier this month. Illegal cigarettes are being manufactured from raw leaf tobacco, packaged in a counterfeit brand-name package and sold as name-brand cigarettes.

We do not know the extent of this new problem. In this one raid, police confiscated empty Canadian and American brand name packages, cigarette-making machinery and approximately 6,000 kilograms of tobacco with an estimated street value of \$1.9 million. In some of the items we brought along, this particular package here is out of that raid. The RCMP are now auctioning this tobacco off, by the way, in case anyone needs to buy tobacco. In this case, this happens to be an American-blended type of tobacco, and it's the Asian community involved in this particular type of tobacco.

In summary, because tobacco taxes are so high and because animosity against these taxes is so widespread, the evolution of the underground tobacco economy can be seen as a worst-case scenario for all sectors of the underground economy.

It was not until repeated and significant tax increases were imposed that the underground movement of tobacco began. It started small, with individuals smuggling for themselves or their friends. Acceptance of illegal activity spread among consumers. As demand increased, the size and sophistication of smuggling increased. Soon, specialty product was manufactured solely for the underground market, and now, illegally obtained product, stolen either from retail outlets or as raw leaf, has hit the market.

We believe there is still time to reverse much of this underground activity. We believe that removing the profitability of the venture will reverse the trend. It is not likely that at this point a lowering of taxes will end the problem. What it will do is end the big profits. Without big profits, the sophisticated underground operators will pull out and the problems associated with them will end. Ontario's orderly production and marketing system will be preserved, and of course that's what we're concerned about.

Once again, ladies and gentlemen, we'd like to thank you for the opportunity for allowing us to appear here today.

The Chair: Thank you very much for your presentation. We have about eight minutes per caucus. We'll start with Mr Kwinter.

Mr Kwinter: Thank you for your very interesting presentation and your fascinating display of contraband merchandise. I'm just trying to get a handle on just how this thing works. Some of the products there—for example, there is a carton of Canadian cigarettes that says "Made in Canada."

Mr Bouw: Yes.

Mr Kwinter: Are they in fact made in Canada or do they just say that?

Mr Bouw: The Canadian right there, that particular one?

Mr Kwinter: Yes.

Mr Bouw: This one is made in Montreal.

Mr Kwinter: Okay. So you know who makes it.

Mr Bouw: This particular one we do, yes.

Mr Kwinter: Is that made by a legitimate company or is it a contraband company that's making it?

Mr Bouw: The particular gentleman who owns this company is from the Netherlands. Actually, in this particular case we feel it's pretty legitimate. This man was making cigarettes for the duty-free market. But these smuggling people get hold of this stuff. However, I don't know in this particular case.

Mr Kwinter: So these products are sent out of the country.

Mr Bouw: Yes.

Mr Kwinter: But there's no market for them. They're just sent out and then brought back in again.

Mr Bouw: In this case, there is a market.

Mr Kwinter: Oh, there is a market for that particular one.

Mr Bouw: In this particular case, you can buy these legally here in Canada.

Mr Kwinter: All right. Well, let's pick some of the other ones. Do you know whether any of those others are made in Canada?

Mr Bouw: These? No. These are made at Akwesasne. These are made in Bowling Green, Kentucky. These are made at Akwesasne as well.

Mr Kwinter: And they're all smuggled in.

Mr Bouw: Yes.

Mr Gilvesy: New Jersey.

Mr Bouw: This one comes from New Jersey. They all say "Canadian," they have the flag and the whole bit. This one is from England, from the United Kingdom.

Mr Kwinter: You've answered my question. My major concern was that I was trying to figure out what sense it made for this Canadian one that was made in Canada to be shipped out and then brought back in again. Obviously, it's made by someone who's in the business.

Mr Bouw: These are made for duty-free markets, and of course that's at a different price. We have a two-price system: export and the domestic price. These are bought at export prices and manufactured in Montreal, or Quebec actually, for a duty-free market. The man started this about four years ago; we felt it was very legitimate, and we didn't have a problem with it. With most of these others, the story's totally different. In this particular case, we're pretty sure it's Canadian tobacco. These, we don't know. That's where we're being affected.

Mr Phillips: I think we all recognize we have a major problem on our hands here. As I look at the revenue drop to the province this year over last year, it looks like we're down about 15% on tax revenue. You probably just saw the numbers that came out Monday.

Mr Bouw: No.

Mr Phillips: Well, tax revenue on tobacco went down by \$70 million, and year over year it looks like it's down

about \$130 million. So in one year it looks like we've lost \$130 million of tax revenue on tobacco. I think that's simply confirming the problem that you are bringing to us. We are getting, obviously, mixed advice on the solutions. I wonder if you could be helpful to us just in terms of if we were to adopt your recommendation on reducing taxes to try and get at the smuggling problem, how much revenue loss are we talking for the federal-provincial government to get the taxes down to a level that you think may be appropriate?

Mr Bouw: I think we have probably a couple of things happening here, in our opinion. As probably everybody is aware, the province of Quebec has now come forward and recommended to the federal government to reduce taxes by 75 cents a pack, as long as the federal government does the same thing, because by far the greatest activity in is smuggling there, although Ontario is catching up. So 75 cents by the province and 75 cents by the feds, that's \$1.50 a pack. It would reduce the tax by \$12 a carton.

I don't know if there's a magic number, but in our opinion it would take a \$15-to-\$20 rollback in order for the government to collect its total taxes. This 40% that it's getting nothing for right now—of the contraband market, it's 40% to 45% that nobody is getting anything for. You have to make assumptions of, if that contraband market is gone—in our opinion, it will totally never be gone any more because it's very entrenched now. There's an underground system, because it's organized crime involved. According to the investigator of the province of Ontario, organized crime is deeply entrenched in this. So you'll never totally stop it and you cannot measure the cost—we can't, the province probably could—involved today, as in Quebec, where they hired what they call the tobacco police, they hired 50 more of those people, or the RCMP's cost or the court cost. We can't measure that.

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So on one side of the issue, yes, you'll get your \$200 million back. But how many other dollars will be saved? We can't measure that. Probably the province could measure that. There are no doubts in our minds that hundreds of millions of dollars will change from it now being picked up by smugglers versus the province of Ontario on the one hand saving dollars on criminal activity and on the other hand by retaining the tax level I think that they're now getting, because it's going to continue to go down.

Mr Phillips: A \$15-to-\$20 drop, would that be—I can't remember the taxes on tobacco. Is that roughly half the tax?

Mr Bouw: Yes. The province of Ontario on a package of 25—well, this isn't ours—is \$4.38. That's federal and provincial, and that's about half and half, the province and the feds. There has to be cooperation between federal and provincial governments on this, in our opinion.

Mr Phillips: The other solution that I think a lot of people have hoped for is that frankly the US prices would go up.

Mr Bouw: Yes.

Mr Phillips: From your perspective, is that likely to happen and what will the impact be of that?

Mr Bouw: We feel it will happen. We suspect it may be another year down the road. How great? We've heard 75 cents, but until it actually happens you never know what it's going to be. But, yes, if we change here, we drop here, and they go up, obviously the gap's going to be smaller and it will have an effect. It won't have the total effect because these people aren't concerned with tax. They don't pay anybody. There's no tax. That's the problem—40%. There is no tax involved here.

Mr Phillips: Is it a major production facility at Akwesasne?

Mr Bouw: I haven't been there; I can't answer the question, but some of these are—these are Akwesasne but these are out of the US. This one here says "TP-42." I don't know if that means tepee as in Indian tepees; we don't know that.

Mr Phillips: But they're cigarettes produced on the reserve, I gather, are they?

Mr Bouw: These; we know definitely these are.

Mr Phillips: Is that a fairly major capital investment in machinery and things like that? I'm just wondering, is this a major operation for production?

Mr Bouw: They're available just about any place you want to buy them, in the tobacco world. There's a lot of outdated, older type of machinery that the sophisticated manufacturers obviously don't use any more and it's much simpler. These people can afford it because their profits are just so huge.

Mr Phillips: The thing that I might find the research helpful is just some of the analysis of the taxes—I know we've got it somewhere—of what you're proposing, a \$15-to-\$20 reduction and then what that is as a percentage and what that would mean of lost tax revenue; just our report.

Mr Cousens: I have some problems with your presentation and I don't want to be too offensive. I think that you and I might agree on something of the problem but the solution that you're coming up with, you're almost closing the door on action that we may want to take, whether it's conflict of interest to protect the tobacco growers—you're saying one thing, and we are here trying to come up with some solutions for the province that may impact an awful lot of people.

For instance, you say exports in Canadian tobacco isn't the answer and then you say that special packaging isn't necessarily the answer, and then you start to point to another one and say to lower the tax, well, that would be the answer.

The directions that you want us to go in aren't necessarily the directions that people on the other side of the fence would have us go. So where I see you coming from is—maybe you can just try to explain. Are you more interested in just protecting the Canadian tobacco grower, which is admirable, or are you coming forward with some solutions that can help us solve the illicit tobacco trade that's going on in Canada?

Mr Bouw: Obviously, we all have self-interests;

there's no doubt about that. If you're talking about the people who are on the other side of the fence, we need to protect, first of all, the Ontario and Canadian industry. The people they're so-called trying to protect, they're not doing that.

Consumption in this country is going down 3.5% per annum. It hasn't changed in 20 years. Legal consumption, however, in this country is going down about 12% to 13% per annum, if you look at Statistics Canada numbers. Lo and behold, when these people come up with what they're doing, the availability of cigarettes to minors is much greater than it ever has been because the cost is half the price that it was two years ago. As I said earlier, you can now buy these for \$14 a carton versus \$48 a carton. You can buy them anywhere. They're available to the people we're all conscious of, the youth.

Mr Cousens: I'm concerned. I know we're going to have a problem before we're finished with this one, because I'm out to see tobacco consumption reduced, legally and illegally. Primarily in this committee, the illicit transportation and selling of tobacco is a major concern, but I would like far more to hear from groups such as yourselves some concrete suggestions on how we as a society can fight it more. One of the things that came through in hearings last week is that most of the illicit tobacco is Canadian tobacco; it goes across the border into the States or wherever and is repackaged, because Canadians like to buy Canadian tobacco primarily. You're coming in and saying there are other kinds that—

Mr Bouw: That's the way it started, what you're talking about.

Mr Cousens: But still it's primarily a Canadian product that Canadians like to smoke.

Mr Bouw: We don't know that.

Mr Cousens: Well, that's what we heard in other presentations.

Mr Bouw: When you talk about Player's, Export A or those types, you're correct, and we mentioned that in our brief. Those are the effects I referred to in the brief, but today—

Mr Cousens: Somehow or other I'd like to get a hold on Canadian tobacco, because I have a sense that it's Canadian tobacco coming in under different packaging. How do we do that?

Mr Bouw: Are you saying to me that we should eliminate the business? Is that what you're asking me?

Mr Cousens: No. I won't go that far, but what I am interested in is finding a way of tracking Canadian tobacco. If it's true that a large part of the tobacco that's in the illicit trade is Canadian tobacco, then we should have some way of tracking it. If it goes out of the country and then comes back in and suddenly it's on a different market, then we should be doing something more to stop it.

Mr Bouw: If you can solve the problem, sir, please.

Mr Cousens: That's why I was inviting—

Mr Bouw: Some 80% of the contraband goes through native reserves. It's traffic through those.

Mr Gilvesy: I think you have a pre-conceived notion, sir, that Canadian cigarettes are very distinct. It just happens, though, that it is an English-style cigarette which is widely available around the world. There are two basic types of cigarettes that are popular in the world now. One is English-style, which is a Canadian-style, and the second is American blend. An English-style cigarette is not strictly unique to Canada; it is a style of cigarette.

Mr Bouw: Like that one right there.

Mr Gilvesy: That one is from the UK. It's an English style of cigarette, similar to a Canadian style of smoke. It does not take long for a smoker, at a price advantage of \$25 a carton, to become accustomed to a slightly different taste, while to switch to an American-blended cigarette is a dramatic change in taste. You have a misconception about what is a Canadian type of cigarette.

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Mr Cousens: I'm willing to be educated. The process is a tough one, because we've got competing jurisdictions and people looking for different things. Somehow or other, we've got to cut through it and get to a way in which we can all come out of this winners. We're not winners at this point when the taxpayers are losing so much on it—and even the growers. I don't want to see you guys continue to go down the drain because of it.

Mr Bouw: The answer is cut the tax. There is no other answer, believe me. It's too lucrative. No matter what rules or regulations or stipulations you put in place, they will not work.

Mr Sutherland: We have a high school right near Queen's Park, and as I walk by I notice there seems to be quite a few smokers among that population. You indicate that the contraband market undermines efforts to reduce the amount of smoking among those who are underage. Do you have some information you can provide to the committee about how this is occurring? Are they just going into the regular stores now and purchasing underage? How are the illegal cigarettes getting to the underage people? You may not be familiar, but from the information you've heard.

Mr Bouw: It's very much the same as the way these kids get hold of drugs. There are various people at the schools who have associates and take the orders. There are trunks of cars or little vans that are right around the corner from school yards or even right in the school yards. You just have to place your order and it's readily available, whether you want cigarettes or drugs, but we're talking about cigarettes. That's very readily done. At a lot of factories, people are going into the gates in the morning and there's simply a person there who's taking orders, and that's the way it works at school, high schools and public schools, for that matter.

Mr Sutherland: We've heard evidence before this committee that the manufacturers in some way have taken advantage of the situation. They were the ones who expressed concern about the export tax, and there's some evidence that the amount of cigarettes being exported has increased since the export tax came off and that the manufacturers need to be involved in the solution. How would you respond to those people who may have made

that statement before this committee?

Mr Bouw: I think there were some real strong efforts made by the manufacturers. There was a six-week period that manufacturers shipped nothing, shipped no tobacco at all. Don't forget the point we made, that all of a sudden 23 new brands showed up at the border which were not from our manufacturers. It's a big world out there, and all of a sudden you have these things from the UK appearing. I think our people very legitimately and honestly made an effort. Our anti-friends sometimes say, "Look at how the \$8 tax worked." That's a bunch of crap. It didn't work. There were no cigarettes shipped for that time period. That's why the numbers went down, to make a point to the governments that it was totally ridiculous. I think they did honestly try.

Mr Jamison: I'd like to welcome you back here, George and Al. I should make it clear to Hansard that I represent the riding both of you live and farm in.

I'd like to make the issue clearer, if I can, probably being educated a little more on this issue than some members. The Canadian-grade tobacco itself can be grown anywhere, can be grown for the market. We have a very good quota system that allows the tobacco board to have a handle on what's grown and what isn't grown. Beyond the smuggling issue itself, what is happening is that the ability of this quota system to prevail is threatened, and threatened directly, and I'd certainly like you to comment when I'm done my remarks here.

As I say, you can grow Canadian-blend tobacco anywhere, anywhere at all. You can grow it in the US or, for that matter, you can grow it right here on certain pieces of land. Some people say there's some growing activity taking place on native reserves at this point.

The whole issue is one that's certainly clear, to me at least, that we've gone beyond the level of taxation that will produce any kind of revenue generation unless we're able to deal with the whole question of smuggling.

Beyond that, in my clear opinion, we have domestic price and export price, which are different. Export price is lower. Because of the amount of smuggling that's going on with tobacco that's legally grown but coming back in, because of that export swelling, that's having a direct effect on my community and the incomes of people on farms in my community. It's a real and very significant problem. It's one that, as both Mr Bouw and Mr Gilvesy have indicated, is going to take a real serious coordination of efforts on the part of the federal and provincial governments, not just here but elsewhere also.

Please, if you like, add to anything I've said. It's not just a matter of the smuggling itself; it's the effect on the communities, because there are different pricing systems. We're starting to lose our grip on the quota system, which at least gives us a measuring stick of what is out there. It's very difficult on people like Mr Gilvesy and Mr Bouw.

Beyond that, I credit both representatives here. I believe, and I know they believe also, that education and promotion of limiting the usage to minors is very important. The whole question here today is one that deals with the tax level that exists and what effect that's having, not

just in the area of lost revenues but on the communities affected.

Mr Bouw: As I stated in our brief, we feel as growers last year we lost \$35 million, about \$23,000 per producer, because of this difference in price between domestic and export tobacco. It's about a dollar-a-pound difference. For us, it's a very real concern and we want to see this stopped. Some people indicate, "You're not really sincere." That isn't true at all. It's costing us a lot of money, so we feel very strongly.

This thing impacts on basically four main counties, and about 300,000 people in our estimation live in these four counties. That farm-gate value of \$300 million-plus of tobacco that's going through the farm gate, and then the spinoffs to our suppliers, whether it's machinery dealers or car dealers or grocery stores—everyday business like everybody here does—that's what those four communities live on. There's nothing else. We do have some small industries and hopefully we'll get more, but they're basically farming communities.

And now we're going to give it to somebody else. Why are people trying to do something to an industry that works? It works. There are a lot of problems in this province, a lot of people who would like to have jobs. We supply a lot of jobs. We spend a lot of money in our communities, that spinoff from that \$300 million, and there are people trying to take that away from us. It doesn't make any sense. Sorry for carrying on.

The Chair: That's quite all right. Our time has run out. I want to thank you, Mr Bouw and Mr Gilvesy, for making your presentation before the committee this afternoon. Thank you very much.

Mr Bouw: Thank you for your time.

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LIQUOR CONTROL BOARD OF ONTARIO

The Chair: Our next presenter is Andrew Brandt, chair and chief executive officer of the Liquor Control Board of Ontario. Welcome, Mr Brandt. Would you be so kind as to introduce any other people who might be assisting you with this presentation, and when you're ready, please proceed.

Mr Andrew Brandt: Mr Chairman, thank you. Members of the committee, I'm delighted to be here and to have an opportunity to share with you the Liquor Control Board of Ontario's perspective on the subject you're discussing in this committee, namely, the underground economy.

I have three senior staff members from the liquor control board who are with me today. I'm delighted to introduce to you Alex Karumanchiri, who is the director of our quality assurance branch; Harry Tughan, who is the director of loss prevention and security and has been most closely connected with some of the activities that we're involved in relative to the whole smuggling issue; Rob Dutton, who is our director of economic policy and planning. In addition, we're pleased to have with us John Coones, who is the president of the Ontario Liquor Boards Employees' Union. Mr Coones has worked closely with us in our attempts to address this very serious issue.

In the time that's allotted to me and recognizing that the members of the committee want to have some time to get into questions and some answers perhaps, I'd like to tell you, just to put it into perspective, a little about the liquor control board and then I'll outline some of the challenges we face from the underground economy. Finally, in my conclusion, I'll describe the steps we're taking to combat the growing illegal importation, manufacture and sale of beverage alcohol in this province.

First of all, let me point out the fact that is often overlooked as it relates to the liquor control board, and there are some in this room who are experts with respect to the LCBO because they have had an intimate knowledge of the workings of that particular board over the years. It is only one of many retailers of beverage alcohol in Ontario.

We're a major player, of course, and we sell in some 600 retail outlets in Ontario and we sell all three products, which others do not. We sell distilled spirits, we sell wine and we also sell beer. Brewers Retail of course is exclusively limited to beer, and Ontario wine stores are exclusively limited to wine, but we face legitimate legal competition from a variety of sources, including Brewers Retail stores, Ontario wine stores, legal cross-border shopping and you-brews.

Today, the liquor control board has 37% of Ontario's \$5.4 billion a year beverage alcohol market or approximately \$2 billion in annual sales, and that shows up in the Treasurer's report to the Legislative Assembly on an annual basis. However, when it comes to volume of product, which we measure in litres, we only hold about 17% of the market. Clearly, we're not a monopoly in that we hold far less than 50% in both volume and in dollars.

To deal with increased competition and the shared marketplace that has evolved over the past few years, we've developed a series of strategic programs to position ourselves as the beverage alcohol retailer of choice for Ontario.

We've redesigned many of our stores, and some of you have visited those stores with me and know the reference I make to our stores becoming more consumer-friendly and more efficient. We've taken steps to improve our service by providing more convenient services to female shoppers and customers with different cultural backgrounds. By that, I mean we're bringing in more ethnic products to reflect the ethnic makeup of the province of Ontario.

We have a broad selection of outstanding products that are sourced throughout the world as well as from producers closer to home. Within certain constraints, about which I will talk later, we are price-competitive. We have invested in our facilities and in our employees. All these efforts have been directed at serving the public in a competitive marketplace and in a socially responsible manner.

However, for more than a decade our sales, particularly in the spirits category, have been falling steadily. That downward trend has averaged approximately 5% on an annualized basis since the late 1970s, the early 1980s. Some would attribute that drop in reduction in spirit sales to a variety of factors, which include changing lifestyles.

In recent times, however, the underground economy has become a major factor and a major competitor that we have to face.

A number of factors have contributed to the increase in illegal beverage alcohol sales in Ontario. These include, and I believe this is the type of thing this committee wants to get at: the effect of the lingering economic recession on the average consumer; the growing opposition to paying what are perceived by some taxpayers to be excessive taxes on beverage alcohol; the perception that all liquor sold in the United States is cheaper than similar products available through the liquor control board; the imposition of enhanced border-point levies for those legally importing beverage alcohol from the US; the traditional emphasis in law enforcement on more serious crimes, those crimes that are of a more critical nature in the view of our law-enforcement officials; the failure of those in the beverage alcohol industry, including the LCBO, to educate the consumer about the negative consequences, both in terms of personal health and economic wellbeing, of purchasing contraband alcohol.

Let me say that the term "underground economy," from my point of view, is just a fancy expression for law-breaking. When it comes to this type of black market activity, the LCBO is more affected by two specific types of activities: (1) the smuggling of alcohol, primarily spirits, and predominantly through the United States, into this province and its subsequent sale here, primarily through commercial, licensed outlets; (2) the illegal manufacture and sale within Ontario of wine products, and I'm not talking about homemade wine made in the basement of your home for your own consumption. I'm talking about commercially produced wine, in large volume, which goes into the underground economy again through licensed establishments and so forth.

Smuggling and illegal manufacturing of alcohol are not a new phenomenon. They have always existed to some degree, but, perhaps with the exception of the Prohibition era, never to the extent we see at the present time. Furthermore, we have reason to believe that these practices are escalating, becoming accepted behaviour and are developing their own sophisticated infrastructure.

All of you, I'm sure, have heard stories about contraband product available in this province over the course of your deliberations on this committee. One of the loss-prevention and security officers at the liquor control board, when he knew I was going to appear before this committee, put it this way, "On every payday in nearly every municipality in this province, no matter whether it's a border community or inland, outside the factory gate a truck or several trucks will be parked and the people there will be selling illegal booze and cigarettes."

Other times, illegal products are available through acquaintances or friends or they show up behind the counter of bars, restaurants and banquet halls. Over a recent 12-month period—and this is in part due to the additional attention that we have been directing towards the illegal market, in concert with our sister agency, the liquor licensing board—illegal alcohol seizures from licensees increased by some 3000% on an annualized

basis year to year. That substantial increase I think indicates that we're paying more attention to the problem.

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Let me share with you some examples of recent seizures of illegal alcohol in Ontario:

Last March, more than 6,500 cases of smuggled liquor, worth about \$1.7 million, was found in a Barrie warehouse and in two trailers near Orillia.

In early May, police raided a Buffalo warehouse and confiscated more than \$100,000 worth of alcohol that was headed for Toronto. Some had already been loaded into two vans with Ontario licence plates.

Near Fort Erie this past July, the OPP stopped a tractor-trailer containing 360 cases of illicit American liquor valued at \$80,000.

In mid-July, Metro police, in cooperation with LCBO investigators, raided food stores in Toronto and Scarborough and seized 4,200 bottles of smuggled Chinese liquor with a street value of \$63,000.

Exactly one week ago today, three Canadians and an American were charged with planning to smuggle 1,700 cases of untaxed liquor into Canada.

Just last week, LCBO enforcement staff seized approximately 30,000 bottles of Chinese spirits with a total value of \$350,000.

Obviously, these illegal activities I'm talking about aren't just someone bringing a bottle across the border from Buffalo in a glove compartment, and it's not an individual making some wine in the basement for a friend, as I mentioned earlier. It's a multimillion-dollar business which is well organized and very sophisticated.

But how extensive is it? Well, studies undertaken at the liquor board, as well as surveys that have been conducted, suggest that approximately 15% of the Ontario beverage alcohol market can be said to be part of the underground economy. For example, a recent merchandising survey we conducted found that one in seven of the respondents surprisingly admitted bringing alcohol into the country illegally. Even these figures are probably understated as they were obtained over the telephone and the questions were being asked by a stranger to someone on the other end of the line, and they admitted freely, one in seven, that they were engaged in illegal activity.

The 15% figure, however, I would suggest to you, appears consistent with the estimates made by others who have appeared before your committee. In many instances, they seemed to be coming down around 15% as the estimated number that represents the level of activity in the underground economy. Other groups seem to concur as well with the 15% figure I've shared with you.

The Association of Canadian Distillers, for one, has done a study that found that while Canadian and American consumption patterns for beverage alcohol are about the same, the decline in legal sales is approximately 60% higher in Canada than it is in the United States. The Association of Canadian Distillers believes that sales through the black market are the only explanation for this disparity. Obviously, there could be a few percentage points differential between Canada and the United States, but to have a 60% differential seems to be rather dra-

matic, and it's our belief that that differential is being driven into the underground economy. The ACD also estimates that four million cases of spirits enter Canada illegally every year, of which two million, or about half, are sold in Ontario. All of that translates into \$495 million in lost sales for the liquor control board.

When it comes to illicit wine manufacturing, one senior winery official has estimated that the volumes produced and sold illegally in Ontario are greater than the total amount produced by the Ontario wine industry together. In other words, the underground market, the illegal market, is bigger than the legal market as it relates to Ontario wine production. In dollar terms, these losses to the liquor control board, and also to the legal wine stores in Ontario, are about \$320 million a year.

The view that smuggling and illegal manufacturing are victimless crimes is a myth. Let me tell you who some of the victims are.

They are people who are exposed to potential health risks from drinking alcohol that hasn't gone through the same rigorous LCBO testing procedures as legitimate products or that has been produced or stored in unsanitary conditions. Let me give you some examples of what we have found through some of the work that we're doing.

One raid on an illegal wine operation found alcohol stored in barrels which had originally been used to hold industrial chemicals. That's scary. In another instance, traces of rat poison were found in a liqueur that was seized by some of our officers. LCBO investigators have seen liquor stored in containers that previously held waterbed conditioner.

People have tried to smuggle vodka into the province by dumping it into windshield washer antifreeze containers. Sometimes they just add blue dye, coloured dye, to it to make it look like it's the same colour as antifreeze. We have found illegally manufactured wine in containers with skull-and-crossbones labels on them. We have also found illegal products being sold with an alcohol content of nearly 60%; the maximum allowable in Ontario is 40%. These products can be lethal, as evidenced by stories that we've all heard of street people dying after drinking such highly potent liquids.

Other victims are our youth. Those under the legal drinking age of 19 who purchase alcohol from illegal sources consume it and then engage in behaviour the consequences of which are often permanent. In this regard, I only need refer to the problems associated with drinking and driving and some of the cases that have shown up in the media during the course of the past few months.

There are also those who, although already intoxicated, are able to purchase even more alcohol from the black market. The personal suffering, the child or spousal abuse that results in the absence of controls over the sale of beverage alcohol are obvious.

You heard from Mark Taylor, the president of the Addiction Research Foundation. He's already spoken to you in some detail about the cost to society of alcohol abuse that's associated with products sourced from the underground economy.

In contrast to the no-questions-asked approach in the underground economy, the LCBO's most recent figures indicate that approximately 160,000 people who appeared to be intoxicated or were under the legal drinking age and who wanted to purchase beverage alcohol were challenged by our staff, and under our challenge and refusal program, some 57,000 of them were subsequently refused service.

Those employed in the beverage alcohol industry and in those ancillary operations which in turn depend on the alcohol industry for their business are also victims. This includes those in industries such as agriculture, bottling, packaging, transportation, warehousing, advertising and promotions. That's about some 6,500 people who depend on direct or indirect work from the distilled spirits industry alone.

Then, represented by Mr Coones who was here today on behalf of the Ontario Liquor Boards Employees' Union, we have some 4,000 permanent and casual employees who work for the LCBO. In the country as a whole, the Association of Canadian Distillers calculates that illegal products cost Canadians about \$1 billion in lost jobs, economic activity and taxes; about half of this is in Ontario.

Also, let's not forget the victims who own and operate the law-abiding licensed establishments, many of whom are struggling in a difficult economy while others flout the law and pocket illegal profits, and of course they have the advantage because of the differential in price of charging for a legal versus an illegal product. So the competition is unfair.

We are all victims when additional inspection and law enforcement costs must be paid for from our hard-earned tax dollars to combat smuggling and illegal manufacturing. Those of you who represent constituencies near the American border know about confrontations, often violent, involving law enforcement officials and smugglers. The out-of-pocket costs associated with enforcement are one thing, but the potential cost in loss of lives is something even more critical, and we've seen that kind of thing take effect on the St Lawrence River, as an example, in some areas.

When the profits to be made from illegal activities are high, as they are when it comes to the manufacturing, importation and sale of beverage alcohol, so are the risks that those in the black market are willing to take. In this regard, let me state unequivocally that the underground trade in liquor is just as serious as that in cigarettes and tobacco and the value of the products involved is comparable in terms of dollars. This is a factor that's often overlooked.

We are also victims when the sale of beverage alcohol through illegal channels creates a revenue shortfall for the liquor board and also lawful sellers and by extension, of course, the governments of Ontario and Canada.

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The liquor control board is the second-highest contributor of non-direct tax revenue to the provincial government, so that the more than \$800 million in illegal sales translates into approximately \$475 million in lost taxes to

the provincial treasury. These are revenues which could have been used to fund a wide variety of needed capital and social programs or to reduce the deficit.

Now let me return to the two factors I highlighted earlier that have contributed to the increase in illegal beverage alcohol sales: growing opposition to paying what is perceived to be excessive taxes on beverage alcohol and the perception that all liquor sold in the United States is cheaper than liquor sold here.

The critical question is, how high should beverage alcohol prices be? On the one hand, we have the ARF advocating higher prices, believing that this will lead to reduced consumption. There are others, however, who dispute that particular position. They hold the view that exorbitant prices don't alter consumption levels whatsoever but rather drive purchasers into the underground economy. Therefore, while legal sales may decline, consumption doesn't decline. It is simply driven into another avenue of outlet where it's purchased.

The LCBO has traditionally attempted to find the delicate balance in pricing its products. It must be recognized, however, that federal and provincial taxes are a very significant component of the price of our products. Fully 83% of every dollar spent for spirits goes to federal and provincial treasuries. For wine it's 65% and for beer it's 45%. Therefore, it is our view that additional taxes on beverage alcohol will only make illegal products more attractive and drive more consumers into the underground economy.

While taxation levels in neighbouring US states on beverage alcohol are lower than those in Ontario, our surveys have shown that in many instances, despite popular perceptions to the contrary, we are relatively price-competitive. A recent price comparison of 254 products sold in Buffalo, compared with the LCBO, showed that 160 of those products, or 63%, are priced lower in Ontario. That's kind of good news. In addition, we believe that we provide a much higher level of customer service in a wide variety of ways.

The LCBO has also been very active on the enforcement side. A little more than a year ago, under the direction of Harry Tughan, who is here with us today, we established the illegal alcohol task force. The task force meets monthly and involves LCBO investigative staff and representatives from such agencies as the RCMP, the OPP, the Ministry of Revenue, Revenue Canada and the LLBO.

We often have contact with our counterparts in the United States, and just recently representatives from British Columbia spent time with our loss prevention division seeking assistance on how they can do some similar work in their province because they heard of some of the success that we're realizing here in Ontario, which I referred to earlier in my remarks in terms of some of the seizures that we have been successful in making. The goal of this task force is to share and exchange as much information as possible so that enforcement activities can be better coordinated.

All of these initiatives mean that illegal alcohol activities are now being given a higher priority, the expertise of our people in this field is being utilized to a

greater extent by the sharing of information and more and more successful investigations are being carried out. We've had two successful seizures in the last week alone.

Obviously, we are attempting in a time of restraint to invest strategically in those enforcement initiatives that will provide the greatest return to the LCBO and, by extension, to the province of Ontario. However, the resources needed are significant and investments made often require a considerable time before they start to bear any return in terms of dollars, because you have to spend a lot of time chasing these people down.

But there's more that can be done. For starters, there is the question of punishment. I want to share some thoughts that hopefully will give the committee some ideas on what might develop out of this committee in terms of recommendations.

Often sentences that are handed out for those who are involved in smuggling beverage alcohol are less severe than those involved in smuggling or selling illegal tobacco. The fine structure, in my view, is insufficient to deter organized smuggling operations when the financial benefits are so great. In addition, the risks involved in smuggling are minimal in the absence of a concentrated law enforcement program.

Liquor smuggling is currently dealt with under the Excise Act. However, identifying smuggling as an enterprise crime under the Criminal Code not only would send a signal as to the serious nature of the crimes involved but also would provide tougher penalties for those engaged in such activities. That's a recommendation I would like to make to you. It would also facilitate recouping profits made by those engaged in illegal activity.

At the federal level, Canada Customs presently lacks the resources and the equipment to search tractor-trailers properly and to verify documentation. This plays into the hands of organized smugglers as well.

Greater cooperation among the various government agencies, as exemplified in the efforts of our illegal alcohol task force, would also go a long way to fighting an all-out war against illegal alcohol activities. The cost to government in these two recommendations would be minimal. They're not programs that are pricetagged with a high cost associated with them, but they would certainly lead to more seizures of illegal beverage alcohol and to more convictions for those who are involved in the black market.

While we at the LCBO have done a great deal in recent years to meet our competition, including that in the illegal market, by upgrading our stores, our products and how we do business, without enhanced enforcement activities smuggling and illegal manufacturing will continue to grow.

Educating the public as to the serious, negative impact of these seemingly innocent, so-called victimless crimes would also go a long way to ensuring that high-quality, safe beverage alcohol products are provided to the people of Ontario in a socially responsible way.

In turn, the government, and ultimately the taxpayers of the province, will benefit through increased transfer

payments from the liquor control board and the provision of a high level of public service.

I want to thank the members of the committee and you, Mr Chairman, in conclusion, by saying that the work you are undertaking, I believe, is extremely important. I think this problem is one that is growing, becoming more and more serious with each passing day. It is highly sophisticated, highly organized. It is being conducted in a way which is siphoning off critical dollars from the provincial and federal treasuries.

There are a number of reasons why this new phenomenon is unfolding, but we think there are at least some responses that are available to all of us collectively that might assist in easing the current situation to some extent.

Thank you very much for the time and I appreciate having an opportunity to appear before your committee. Any questions?

The Chair: Thank you, Mr Brandt. The committee certainly appreciates your presentation. We have five minutes per caucus. We're going to go to Mr Carr.

Mr Carr: Thank you very much, Andy, for a fine presentation as usual. We appreciate it and it's good to see you again.

The revenue you talked about on page 16 that we're losing, the \$475 million, if we were to implement some of the suggestions you made at the end—and I appreciate that you came in and actually made some suggestions—I guess you don't have any way of knowing how much we can recoup through that if we implemented some of these. I almost hate to do this because I see Floyd and the Premier just frothing at the mouth if you come up with a figure of how much they can save if you implement them.

In the recommendations, if we started to do it—maybe even percentagewise, do you have any idea how money then could come back into the treasury through the taxes law?

Mr Brandt: I can give you an example of where we've seen a little bit of a turnaround in a favourable direction. In spite of the fact that the economy has not recaptured some of its buoyancy, let's say, within the course of the last year, we've had about a 3% or 4% improvement in sales to licensees. Licensees represent something less than 20% of the total beverage alcohol sales in Ontario. Most of it goes through our retail stores; 3% or 4% on 20% of our sales is extremely significant.

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I believe, and I think this would be supported by my staff, that a lot of that is due to the fact that some of the licensees are a little frightened now, because we had that 4,000% increase in seizures. They know that the LLBO, in cooperation with the LCBO investigative staff, is being far more deliberate in their review of the kind of products that they're carrying on their shelves.

I can't give you an exact figure, but I can tell you that it's in the millions of dollars that could be recaptured very easily. We've seized that much in our activities over the course of the last year. We've seized millions of dollars' worth of product.

Mr Carr: You've talked about, I think it was back on

page 6, some of the increased methods that you've used, additional attention. Are there some other things that you've done as well? I guess some of them you may not be able to tell us for security reasons, but is there anything else you've done in addition? I know the fact that it's more high-profile will probably do it, but is there anything else you've been doing that you can mention?

Mr Brandt: Yes. One of the things that the government of Ontario has helped us with is that we now have badges for all of our officers. When I came to the liquor board in 1991, in February, I was made aware fairly quickly that our investigative staff did not have the powers of laying charges. Now that Mr Tughan, who is here today, and his staff have been issued badges, they effectively can go into an establishment, just like any other police officer or law enforcement officer in this province, with the full rights of the crown supporting them. That has helped us significantly.

In the raid on some of the grocery stores where we seized the Chinese liquor, as an example, our staff did a tremendous amount of the investigative work but could not go into the stores and actually lay the charges or make the seizures. They had to go back to the Metro police force, and I think there were a couple of dozen Metro police officers because there was a simultaneous raid of about 18 or 20 establishments that took place. But we had to have a police officer, arm in arm, go with our people in order to lay the charges. Now we don't have to take that secondary step, so it has made our operations more responsive, more sophisticated and certainly, I think, more effective.

Mr Carr: One last question regarding the taxation issue. I take it that we're at a point now where any more increased taxes on the products are just going to drive them more underground. I take it you're recommending that there are no more increases on the products here in the province of Ontario?

Mr Brandt: That is my recommendation. I might add that, thankfully, the Treasurer has not increased the taxes, I think acknowledging the very point you're raising. On alcohol products over the course of the past two years taxes have been held firm.

I'm saying that we're not totally uncompetitive today. I mentioned that in my remarks. What I am saying is that if we start to get that sensitive balance out of whack by too great a variance we could simply drive more of those sales underground and that's what we're trying to avoid.

My recommendation to the minister of revenue of this province is to be very careful in monitoring that and to not raise taxes. I think it's too much to ask in the current environment to lower taxes. I realize the realities of the day. To hold them would at least be a step in the right direction, and that's what he's done.

Mr Sutherland: A couple of questions. One, can licensees lose their licence for selling illegal alcohol?

Mr Brandt: Yes, their licence is brought up—Harry, do you want to come up with me for a moment on this one?

What happens is the liquor licence board will go in and test products. They have mobile detection equipment.

In most instances when they test a product they will determine whether that product is an Ontario product or not. If they make a determination that it's not one of our products, then they will seize the product and then charges will be laid against that individual and their licence will be brought under review.

I'll let Mr Tughan give you a more thorough answer.

Mr Harry Tughan: That's correct, sir, as Mr Brandt said. The review process with the LLBO takes approximately six to seven months. So, again, yes, you're right. There is a review. He could potentially lose his licence determined on the events that took place at the particular time of the seizure.

Mr Brandt: They get a right to a hearing. It's not just an arbitrary removal of the licence, because in many instances it means that business shuts down. But it is reviewed and then a determination is made as to whether or not the charges are legitimate and they take it from there.

Mr Sutherland: I found it interesting that you said that you thought, at least in dollar terms, the amount of illegal alcohol was the same as cigarettes. I think that's new information for us. People certainly knew that the alcohol was increasing, but everyone felt that cigarettes were, by far away ahead, a more serious problem.

Do we have a sense from the activities that have been carried out, is it the same networks? Is it the exact same networks that are doing the alcohol as the cigarettes? I was surprised that you can get alcohol outside the factory gate. I knew the cigarette stuff and I knew you could get that out of gym bags and whatever. I didn't quite realize the alcohol was there, so I would be interested in knowing, is it the same people, exact same network, same route, or is it a different type?

Mr Tughan: Basically, sir, if I may, you're correct. It is the same networks, and again, I think as Mr Brandt alluded to, the perception of the victimless crime. A lot of people have got into the illegal market. They have tried to make the fast buck. With the cigarettes, again, when you're transporting 50 cartons of cigarettes in one case, it's a lot lighter than carrying 24 or 12 bottles of alcohol. Therefore, it was more attractive to the bad guy bringing it across from the United States by boat or whatever.

There's been more attention given to the tobacco issue. The tobacco smuggling has got a more high-profile approach. What we're finding now is, because of that, the networks of the bad guys are switching to alcohol. The market again goes hand in hand. It becomes more or less not, shall we say, tobacco or alcohol smuggling but commodity smuggling. I think what we have to do is throw in guns and drugs and everything. The whole ball of wax is all sort of tied into this.

Mr Sutherland: One final question: Could you give me some estimate as to what you feel are the number of jobs it's costing just strictly the LCBO by the loss of sales to the LCBO by the amount of illegal activity?

Mr Brandt: Well, this is one component: our reduction in staff. Along with many other government agencies, we've had to downsize. We've had to close

stores. We've had to rightsize the organization because our sales were not going up. We would guess maybe 400, 500 jobs to the LCBO directly in the spirits industry. We're talking the potential of some of the spirits industry closing down in this province if sales don't recover. I'm talking about the total loss of those jobs if in fact we don't get a recovery in the industry and get those sales back into a legal channel.

Mr Sutherland: What is that 400 to 500 as a percentage of your overall number of employees?

Mr Brandt: It's about 10% of our total complement. At peak we would have been about 5,000 jobs. We've got about 4,000 jobs that I alluded to in my presentation to you. The rest of it was simply rightsizing the organization. But I'm attributing about half of that to the illegal market as an estimate.

Mr Kwinter: Mr Brandt, as always, I enjoyed your presentation. I'd like to get some information. You sort of allude in your presentation to the fact that most of the wine, the contraband or underground or illegal wine, is produced and sold in Ontario whereas most of the spirits are illegally smuggled into the country. Is that correct?

Mr Brandt: That's right. Yes.

Mr Kwinter: Are the spirits that are smuggled into the country brand-name merchandise that is legitimately produced but has either been stolen or for some reason comes into the country illegally without paying the tax?

Mr Brandt: Let me give you my answer and then I'll let Harry perhaps amplify on my answer to a certain extent. There are locations in the United States, distilleries which are questionable in terms of their quality, which will produce spirits sometimes with fake or counterfeit labels. They will ship that merchandise to whoever wants to buy it. That comes from distilleries that are in business in the United States. Sometimes they work off phony invoices, phony waybills.

A quick example: There was a truckload that left a distillery on the eastern seaboard of the United States and went to Montreal supposedly to be loaded on a ship in Halifax to go to the Orient. That shipment ended up, I believe, on Dixie Road in Mississauga. Instead of doing a right-hand turn when they got to Montreal, they took a left-hand turn and went to Toronto.

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Now, it was probably an innocent mistake, Mr Chairman, I say with tongue in cheek so that Hansard doesn't misread my comments, but that's the distilled spirit story. Some of it makes a U-turn. There are some products that are supposed to be, without taxation, going from Canada into the United States that do a U-turn and come back into Canada, avoiding taxes on both sides of the border.

The wine issue is a different one and maybe I can let Harry, or maybe you want to talk about distilled—

Mr Kwinter: Before we do that, can I just ask another supplementary question on the wine issue?

Mr Brandt: Sure.

Mr Kwinter: I was surprised to see your comment that the illegal wine industry, manufacturing and distribution of wine, is bigger than the legal wine industry, of all

of them combined. That's got to be a very significant industry. It would seem to me that they're not smuggling empty bottles, and so they must be sourcing those bottles in Ontario or somewhere in Canada. They must be sourcing the caps and closures somewhere in Ontario or Canada.

It would seem to me that if you really wanted to eliminate that and get to the source of the guys who are bottling this stuff, all you have to do is go in and do an audit on Crown Cork and Seal and Consolidated Bottle, and say, "Who are you selling this stuff to?" and identify the legitimate from the illegitimate purchasers and then close them down. Is that a simplistic sort of attitude or can that work?

Mr Brandt: As a former minister, of course, I could ask you why you didn't do that.

Mr Kwinter: Well, because at the time I didn't have the issue that we have now. I never had to address this issue.

Mr Brandt: No, it's a fair question and I'll answer part of it. Harry Tughan is much closer to it than I am. But a lot of it is sold in bulk, Mr Kwinter, and by bulk I mean that it's sold in plastic containers. It is sold in barrels. It is moved in bulk in tank trucks and in railroad tank cars as it's imported into the country, supposedly in some instances as grape juice, not as wine.

They also don't buy bottles in many instances; they borrow them from the industry generally. So they collect their bottles from the legitimate, legal industry and simply refill them. Some of the product that we have tested of these refilled bottles of course is unsanitary and unhealthy to consume because the bottles haven't been properly sanitized, haven't been properly cleaned. So they're not using the legal channels in many instances to even buy the very type of equipment that you're talking about that's necessary to bottle the product.

That's a partial answer. Maybe Harry's got a further answer.

Mr Tughan: I think Mr Brandt has covered it, Mr Kwinter, quite well. If I may, I'll just backtrack a little bit to the illegal spirits.

Basically, bringing the spirits across at any of the ports of entry into Canada, they're coming across in bulk in trailers at 2 o'clock in the morning. The driver will go into the Customs post and he'll produce a bill of lading and say, "I'm going to the Harry Tughan bonded warehouse in Toronto," and of course he's waved through as going to a bonded warehouse.

The problem is that there is no Harry Tughan bonded warehouse in Toronto, and again, 40 days later, when they marry up the paperwork, they find that, as Mr Brandt said, it took the left turn and it's already distributed. It's a real fact. There's no doubt about it. We have evidence of this on many occasions.

With the bulk wine, again it is coming across in the tanker trailers as juice, again legally coming into the country for all intents and purposes. It is being distributed through banquet halls, licensed premises, by pails, by bulk orders, and it is being produced in unsanitary-type locations.

Mr Brandt: You see, with the addition of sugar and yeast to a tank trailer of grape juice coming from California, a biblical miracle occurs and it turns into wine sometimes. I mean, it only takes the addition of a couple of other little products to make it a more sophisticated product with a higher alcohol content, and strange and wonderful things happen to these products when they're en route.

The Chair: I'm afraid our time has run out. I want to thank Mr Brandt and Mr Tughan, and your other colleagues, the Liquor Control Board of Ontario, for making its presentation before the committee today. Thank you very much.

Mr Brandt: Thank you, sir. I'm sorry that I won't have an opportunity to answer Mr Phillips's question. I've always wanted to have a question from Mr Phillips. Thank you for having us here today. We appreciate the time that you've given us.

CONSUMERS' ASSOCIATION OF CANADA (ONTARIO)

The Chair: The next presentation we have before the committee this afternoon is the Consumers' Association of Canada, the Ontario branch, I presume. Lucienne Bushnell is president.

Ms Lucienne Bushnell: Good afternoon. On behalf of the Ontario affiliate of the Consumers' Association of Canada, I'd like to thank this committee for allowing CAC-Ontario the opportunity to provide our comments and observations regarding the troubling issue of the underground economy. I say "troubling" because the issue of lack of confidence is at the root of what is so wrong with government and society at large today.

But first some information about who we are. CAC-Ontario is an independent, non-profit, voluntary organization that represents and informs consumers and advocates action on their behalf to improve the quality of life. Founded in 1947, we are the largest general consumer group in Canada.

As you have no doubt heard from others, the impact of the underground economy is really a guessing game. There is no doubt, of course, that it exists, but the dollar impact can only be estimated. McGill University economist Reuven Brenner estimates that the underground economy represents more than \$100 billion, or about 15% of the economy's reported output, but this is an estimate. Who knows for sure what the real figure and the real impact is? It could be more; it could be less.

We want to make comments on two areas today: first, prevailing consumer attitudes towards participating and/or supporting the underground economy, and a number of the factors we believe contribute to those attitudes.

Dealing with consumer attitudes, why do basically honest citizens who would not steal from their neighbour feel no remorse in committing a criminal act of tax evasion? Why do consumers participate in the underground economy to save on the PST and GST while the seller reaps the real benefit by saving close to 50% on his or her income tax? Is it that we have simply become a nation of cheats?

Whatever motivates generally law-abiding consumers to break the law and take part in the underground econ-

omy must be indeed a very powerful force.

And we believe it is. Consumers in this province, indeed across the country, are telling us that they have lost faith in the system. They perceive that too often big business is not paying its fair share and is making outrageous demands for financial assistance. But more importantly, consumers believe government is squandering the billions of dollars it collects from consumers in the form of taxes and user fees. The issue is that consumers simply do not believe they are receiving value from government for their tax dollars.

As a consumer, if you do not believe you are receiving value from a store, you take your business elsewhere, to another store that will give you value or even to another country. But where can consumers go to receive better value for their tax dollars? With no alternatives open to them, they go underground.

Couple that feeling of no value for money together with a recession-survivor mentality brought about by today's economic realities, and the result is that consumers feel they are forced to take part in the underground economy not just to save a dollar or two but to survive economically.

The government must restore consumers' faith in the system if it is to ever lessen the role of the underground economy.

Some analysts believe that so many Canadians are already engaged in tax evasion and tax avoidance that this shift is permanent. Yet it behooves the government to attempt to remedy the situation. We recognize that the underground economy especially hurts all those consumers who choose not to participate in it by concentrating the tax bill on them.

In general, governments tend to move to punitive measures rather quickly. On this issue there is a need for a serious examination of the causes for this phenomenon before rushing into solutions that might aggravate the problem.

I mentioned at the outset that the underground economy has been set as high as \$100 billion, yet we believe there might be other factors overlooked which could impact significantly on that total.

We believe it is not improbable that some of the economic activity thought to be underground can be attributed to the simple fact that consumers have altogether refrained from buying goods and services. There are a number of key reasons why consumers are spending less. Statistics Canada notes that the credit market debt of individuals grew by 6% to a total \$455 billion by the end of 1992, and that household debt reached a record of 86% of personal disposable income by the end of 1992. This elevated debt-to-income ratio is one of the reasons for the low consumer demand which might mistakenly be translated into aboveground demand moving underground.

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Interprovincial trade barriers have helped drain consumers' pockets. The barriers have divided Canada's relatively small domestic market, particularly for the types of goods and services used by the public sector. Discriminatory procurement policies have resulted in the

duplication of manufacturing, construction and service activities across the country. Not only are the resulting inefficiencies passed on to consumers in the form of higher taxes, but the lower level of efficiency results in less productive industries and higher direct costs to consumers.

Another reason for consumers' lack of spending is that Ontario consumers have seen their purchasing power shrink with every federal, provincial and municipal budget.

It is important to remember that in Ontario, 46% of an average taxpayer's income goes to government. In 1993, the Fraser Institute placed the tax freedom day on June 11 for all provinces and territories except Ontario. Here in Ontario, our tax freedom day arrived on June 16. The average family living in Ontario pays \$27,233 to governments in taxes and fees. This represents 46% of the average income of \$59,580. Keep in mind that tax freedom day was May 3 in 1961 and has advanced steadily since then.

Another key point to keep in mind is that most business tax increases are passed on to consumers. Consumers pay for everything in the end, so every increase in any tax or user fee decreases disposable income. Raising taxes has never created an economic boom.

For years now, CAC has advocated government restraint rather than tax increases in order to stimulate the weak economy. We believe that high levels of taxation encourage the black market and underground activity. It also discourages investment and productivity. Unfortunately, governments keep on adding to the tax load.

History teaches us that taxes have had a negative impact on many civilizations. The Rosetta stone, an ancient Egyptian artefact, bore a message that temples were off-limits to tax collectors. Romans evaded tax to the point that their treasury could no longer finance an adequate army. It could be argued that Rome taxed itself out of existence.

The very rich have their offshore tax shelters and the poor receive government subsidy, but the middle class faces an ever-increasing tax load. Faced with this unfair system, is it any wonder the underground economy looks attractive to so many? If the middle class is expected to pay higher fees for government services, it needs to be left a larger after-tax portion of its income in order to do so. Given the choice, we have found most people would prefer to have the money they need in order to buy the services they need, rather than to give the money to the government so that it can purchase them on their behalf.

Our system of taxation is still considered a voluntary one. Given the higher tax levels, increased user fees and reduction of services and a perceived mismanagement of government spending, consumers feel they have paid their fair share of taxes, so many have simply decided to stop paying. As I mentioned at the opening, consumers have no recourse with regard to government spending. Certainly, every five years they can change the government, but history has proven that this is no guarantee of tax relief. Taxes have moved up no matter what party is running government.

Keeping with the theme of tax increases, we believe quite strongly that whenever a tax or user fee is increased, many citizens will try to find ways to avoid paying it. It's human nature. They may seek professional advice from accountants or lawyers or they may simply head underground and avoid paying it. When consumers view a tax as unfair and unjust, they feel no remorse or guilt in sidestepping it. For this reason, taxes need to be moderate, balanced and fair, otherwise all moral obligation to pay will be lost.

It is hard for citizens to watch new taxes and fees introduced with each budget while old ones are continually increased—sometimes drastically—and the services government offers are reduced. To add to this problem, many consumers believe the day will soon arrive when they will not benefit at all from programs they have paid into for so many years.

As I noted earlier, perception is a problem. For example, in 1992 Revenue Canada reported that 250 Canadians with incomes of more than \$250,000 paid zero income tax in the previous year. This was out of 35,850 Canadians in the \$250,000-plus bracket, not a large proportion.

The report further stated that many of the 250 who avoided the tax were probably farmers or small business owners using their lifetime capital gains tax exemption. Yet this perception that the rich do not pay taxes is sometimes nurtured by the government. It might be in the hope that everyone will scream, "Tax the rich." However, it could be a double-edged sword if many citizens of lesser means, believing that such tax avoidance among the rich is commonplace, might feel justified in evading taxes.

I mentioned at the opening that many consumers believe the government is wasting their money. We can point to a few examples that damage government's reputation as a credible administrator. Again, remember that perception is reality for taxpayers.

How could an organization like the Canadian Auto Workers, which is exempt from paying taxes and is sitting atop of a \$30-million strike fund, ask for and receive \$30,000 for a one-week course on humour for 20 participants at the CAW Family Education Centre at Port Elgin? Why would an organization with 160,000 members and immense resources receive some of the scarce resources allocated for the arts?

How can it be justified that MPPs sitting on committee receive \$80 per day on top of their regular salary and the chairs receive \$9,000 extra annually?

The man asked to cut Ontario government spending by curbing public service wages, Michael Dexter, has billed the province more than \$100,000 for relocation and personal expenses. Is it any wonder that taxpayers grow angry when they hear of \$182 dinner bills being put on their tab when they themselves cannot spend this much to feed a family for an entire week?

Consumers react negatively when they learn about the increase in political staff since 1990, especially when executive assistants are paid \$84,000. And what of the report that 62 of the 73 MPPs have either been appointed

parliamentary assistants or junior ministers, which means that they all receive close to \$10,000 and \$15,000 more a year on top of the MPP salary of \$59,659?

The \$30-million grant given the highly profitable Chrysler Canada for its Windsor mini-van plant is nothing short of a subsidy for mini-van buyers. To add insult to injury, close to 90% of the vans are sold in the USA, meaning Ontario tax dollars are subsidizing American car buyers. The money was said to be for job training, a noble enough cause, but even the Economic Council of Canada recommended that funds for retraining should be directed to workers rather than industries. Why shouldn't a wealthy company like Chrysler pay for employee retraining out of its own profits? And Chrysler is not alone. Ford of Canada received \$34 million. Since our government will have to borrow to pay for these loans, the final cost will be much higher. I hope American Chrysler mini-van drivers are enjoying the ride, because Ontario consumers were car-jacked.

What do grants to large companies have to do with the underground economy? Quite simply, when consumers perceive government to be mispending their money, they will go to great lengths to stop paying the government any money.

In conclusion, the first step to solving the underground economy issue is to identify the causes. This issue did not arise overnight and it will not be settled overnight. It involves a wide range of issues, from too-high taxes to too-little services to angry taxpayers being ravaged by a brutal economy.

How can the government slow taxpayers' flight to the underground? The question is simpler to answer than to solve. Government must demonstrate that it is accountable. It must strive to establish its credibility. It must show consumers that they are receiving value for their dollar. More importantly, the solutions must address the causes and not simply be punitive measures. Thank you for your attention.

1720

The Chair: Thank you very much, Ms Bushnell, for your presentation. We have about eight to 10 minutes per caucus, but just before we divide the time I'd like to say that in some of your statements on page 6—and I'm sure other members may want to refer to this—it says, "Again, remember that perception is reality for taxpayers."

There are some inaccuracies here that I couldn't just let go by; for example, the statement number 2, "How can it be justified that MPPs sitting on committees receive \$80 per day on top of their regular salary, with the Chair receiving \$9,000 extra annually?" That's not entirely accurate. Indeed, if a Chair has no other parliamentary responsibilities the Chair may receive additional compensation. However, if there is a Chair such as myself, who is already a parliamentary assistant and receiving, as you state in your section 4, additional moneys, I do not receive on top of that an additional \$9,000. I receive nothing, actually, for doing this job, although, as I said, I do get other moneys for being a parliamentary assistant.

With regard to sitting on committees and receiving

additional compensation, that only happens when the Legislature is not in session. We can certainly debate whether that's justifiable or not, I suspect, at any time. I personally don't believe that MPPs are overpaid, and I'm very happy to put that on the record. Indeed, one might suggest they're underpaid, although I wouldn't say that. However, I don't think we are overpaid. I think that we have an incredibly busy, busy job. We work extremely long and difficult hours.

I just wanted to make those comments before I divide the time among my other colleagues.

Mr Sutherland: Thank you very much for coming forward. I want to ask you a couple of questions and make some comments about what you put in your presentation, and I want to ask you another question coming out of other testimony that we've heard today.

First of all, I understand some of what you're saying about perception and reality regarding government spending, and maybe we need to do a better job—your points about accountability are certainly well taken—of explaining where all the economic benefits come from, from certain decisions. Fair enough, the Fraser Institute does say that tax freedom day in Ontario is five days after any of the other provinces. I certainly think I could make a good case, though, that Ontario provides more services than any of the other provinces do. So when you look at that, yes, you pay more taxes; you get more services.

You've indicated that people have some question about the value they're getting. The vast majority of dollars are spent on health care, education, social services. That's about two thirds. If you add transportation in there, transportation costs, agriculture, even with those five you're probably getting up to 85% of the provincial budget. Most people would consider them very important services, and many find those services as the way we help to define ourselves.

I would say that within each of those there can be more efficiencies, but the vast majority of the dollars do go for those services that in many ways have helped to define us as being Canadian or being different. It is interesting, because I think you're accurate in reflecting that many Canadians are saying they don't want to pay the same price for those services. My sense is we're always going to have to pay the premium. We have a small population and we have a large geography, but you're quite right when people say that.

You cite the Chrysler example. On the surface, I see where you come up with your argument, but then you have to take into account, yes, the \$30 million goes to Chrysler to train workers but it doesn't seem to take into account all the suppliers, all the associated jobs in the province of Ontario which supply the other parts to go in to make the mini-vans. You say if you're investing that money in Chrysler, you're helping to secure those jobs and employment which, in the long run, would probably generate more tax dollars than we're spending. The impression you're leaving with me is that we do need to do a better job of explaining where the full economic benefits are of decisions like that.

Likewise, in my riding—I believe Mr Kwinter was the

minister when the CAMI Automotive plant came to my riding—the government provided some direct support, provided some training. Also some of the money they committed, I believe, was to do upgrades on the highway and on the roads and commitments that way.

If you looked at the amount you're giving directly to GM and Suzuki, you would say, "Gee, both of them could probably afford to do it themselves," but then you've got to look at all the spinoff jobs and the tax revenue that creates in turn and the other benefits coming from employment. I just want to say that I understand where you're coming with your examples, but I don't think they tell the whole story. I guess if that's your point, that we don't tell the whole story where we do it, I certainly accept that fact.

The other question I really wanted to ask you about is that we heard today from several people, Roger Smith, an economist who's written quite a bit about the extent of the underground economy, and a few other people, chartered accountants. They talked about the GST and about this question of visible taxation versus invisible taxation.

As I think you remember, when the GST came in, they basically said, "It has to be visible; you can't incorporate it into the bottom-line price." It was felt by a couple of the presenters today that this is a constant irritant. Every time I go and buy something, I'm reminded about the GST and how much I hate that GST, because it's out there and it's visible. It's added in. Does your association have any views about the sense of visible taxation versus invisible taxation incorporated in the price?

Ms Bushnell: Yes. I will answer your question, but I'd like to sort of go a little bit back to some of the comments you made.

You made the comment that taxes pay for some wonderful services, and I think most consumers are prepared to pay for health care and that sort of thing. I think what we're talking about is degree, and we're talking of the taxes increase but the service shrinks. That is very important.

You also say that giving \$30 million to Chrysler is wonderful because it has a trickle-down effect. Well, that \$30 million did not guarantee any jobs; it did not create new jobs.

The other thing is that consumers look at it and say: "Why should my tax dollar subsidize this particular product?" I think that's the whole rationale behind consumers saying government has no business providing funds for private industry. It's up to industry to be competitive, to do good products, and it's up to the government to make sure consumers have enough money so that they can go and buy what they want, not what has been subsidized.

That's the problem consumers have with the idea of giving money to business. I mean, \$30 million is so much money for an ordinary person who lives on a small budget. It is not even just for an industry; it's for one player at one plant. It was the mini-van plant of Windsor and Chrysler. So that's the sense of it.

The other thing is, you talk about the GST, visible

versus invisible. The Consumers' Association of Canada supported the introduction of the GST as long as it replaced the manufacturers tax.

I think the problem with the GST is not the GST itself, it's the way that it was introduced. It was not done smartly. Consumers were not informed well enough that this was replacing a hidden tax that was in the goods. I think too businesses were not monitored well enough. Business just said: "Great, wonderful. I don't have to cut my prices." You see, before that money was the manufacturers tax and now they said, "Well, I'll just leave the price where it is."

Some companies went so far as using this as an advertisement ploy, saying: "Before, this fridge would have cost you this. We removed the manufacturers tax and now the fridge will cost you that." So they'd say, "A saving of, say, \$120," but what they did not do, in all fairness, is say, "Now you don't pay the manufacturers tax, but now you pay the 7%." So your tax saving maybe would have been only \$60 dollars rather than \$120.

It was not handled well, it was not monitored well, and a lot of businesses took advantage of it. There was no public education program really that went out with it, and I think a lot of the anger that consumers have is because it was not well introduced.

In terms of the association, we want the tax to remain visible because I think it's important. People have to know what they're buying. Really, with the GST they're buying federal services, and I think it should stay visible.

1730

Mr Sutherland: A second question is on an issue you didn't touch on in your presentation. I think you caught part of the presentation from Mr Brandt and the liquor control board. He talked about some of the problems with illegal alcohol being bottled in containers that had industrial chemicals in them. Underground economy undermines consumer protection and the normal guarantees, warranties etc, and the normal protections that are there for the consumers through the regular economy.

The consumers' association, from my sense, would seem to be very concerned and would probably want to be very concerned about it. What effort is the association making to make its members aware or make the public aware about the lack of warranties, guarantees and the normal consumer protection practices?

Ms Bushnell: In terms of consumer protection, the non-introduction of the fair marketplace code by the government has been a great disappointment to the consumers' association. We're going back to, I think, when Mr Monte Kwinter was minister. You had sort of started the work on revising the consumer protection legislation. That document required a lot of consultation between business, consumer groups and government, a lot of volunteer hours. A lot of resources from our association went into it, and it's yet to be introduced.

Mr Kwinter: That was 1985.

Ms Bushnell: That was 1985. I knew it was a long time, but time flies when one is having fun, I guess. This is extremely frustrating for us. We certainly are very concerned about consumer protection, but we are seeing

a lot of good consumer protection not being introduced; we're seeing some being dismantled. We are very concerned about that.

In terms of what I heard the former presenter say, this is something that I have no expertise in, alcohol chemistry or whatever.

Mr Sutherland: I was just talking about general consumer protection.

Ms Bushnell: But definitely that was part of my first question at the beginning when I asked what would cause consumers to save on the PST and GST when all the time they're really hurting themselves, because the business person doesn't pay income tax. By extension, when people do that, we say to them: "Aren't you concerned that you don't have a warranty? How are you going to be able to follow up if this construction is not right?" That, to me, shows the extent of the problem. People are willing to take that risk to save some money. Some people must be very desperate.

Mr Kwinter: I really wasn't going to comment on what I consider some of your political statements, but I would really be remiss in not, certainly for the record, clarifying. Seeing as you're the president of a very important organization, maybe you would have an understanding of the way some of these government programs work. I'm talking particularly about your comments about the subsidies that are being paid to both Ford and Chrysler.

You have to understand the basic nature of the automotive industry today. At one time, the automotive industry was basically a North American industry. The Big Three were just that, the big three, and they supplied virtually all of the cars that were consumed by North American suppliers. That has changed dramatically.

Up until this year, the largest-selling car in the United States was the Honda Accord. Because of the influx of the transplants, as they're called, the total automotive sector has been totally changed and there's huge overcapacity. That is why you see Chrysler and Ford and General Motors shutting down plants all over North America. It has nothing to do with free trade, it has nothing to do with the auto pact; it has to do with the fact that there is huge overcapacity and there are just too many facilities for the number of cars that are being produced. So that means that a jurisdiction like Ontario, which is heavily dependent on the automotive industry, has to do what it can to make sure that it anchors the business it has.

When those subsidies are given, they're not given because either Ford or Chrysler needs the money. The amount of money that we're talking about—in your parlance, \$30 million is a huge amount of money—is a pittance, an absolute pittance, to the automotive sector when it is investing in auto plants. But as to the reason it is given, let me give you a case history, because I think it's important that you understand it.

When I was the minister I was approached by the Ford Motor Co to say that it had an opportunity to bring a van plant and a paint plant to Oakville. The Ford Motor Co does not need Ontario government money, but what

happened was that they were competing with another Ford plant in St Louis, Missouri. The executives at Ford Canada were anxious to have that facility to put into Oakville for two reasons: It was going to increase their ability to produce cars and create employment, but more importantly, to anchor that facility, to make sure that when the people who were directing the fortunes of Ford looked at the situation, they would not say: "You know what? Let's shut down Oakville," just like General Motors said, "Let's shut down Scarborough and shut down plants all over the place."

So if we can attract that investment, we'll create more jobs but we will also solidify Oakville's position in the Ford family. They were competing and the people in St Louis had exactly the same feeling, because Ford was going out and shutting plants all over North America. The same concerns that we have in Ontario, people in other parts of the United States had.

What they said to us was: "Our problem in being able to compete is that we don't have the infrastructure and we don't have the trained people. Missouri has those people. They've got them, they've got the infrastructure, they've got the roads, they've got the power and they've got the water. So when we're calculating and we're making our bid and they're out there giving a pitch to the executives at Ford on the board of directors, they look at it and say, 'Why should we put that in Oakville, where if we go to St Louis, it's going to cost us x number of dollars less?'"

What they had to do was go out and say: "In order for us to be competitive, to get that facility, we need your help. We're not asking you to give us anything that is going to be just for the benefit of us. By providing that infrastructure, you're going to provide an infrastructure that's going to help other industries in the Oakville area. Other people will be able to come in and establish, and we will have power for them, we'll have roads for them and we'll have water. We're going to be able to train workers who may work for Ford for two years, then may move somewhere else but they'll have that training. So that's a benefit. In order for us to secure that facility, we've got to be able to put together a package that makes us competitive."

That is a decision we had to weigh. When you consider the spinoffs, it isn't just Ford; it's all of the people who provide—the guys in Guelph and the guys in Cambridge and the guys in all of the little communities that are producing parts that are creating the jobs that are giving us the kind of economy to afford to do the things that we want to do. They are very dependent on those major auto assemblers. Those are the decisions that are made.

I agree with you. Just to give money to companies for the sake of giving it to them because it's there, I've always argued against that. But when you have strategic investments, when you identify areas where you want to attract the kind of industry that's going to give you a base, that's going to allow you to be competitive, allow you to be economically viable, I don't think you can spend the taxpayers' money any better than that.

I can tell you that when the Scarborough van plant

shut down and there were 3,600 workers who were put out of work, they were consumers and they were really concerned. They came to the government and say, "What are you going to do to save our jobs?" and we say: "Unfortunately, we can't do anything to save your job because your plant is not competitive. It's too small, it has no room to expand, it is not a competitive plant and there's nothing that we can do." It's not easy when they're out demonstrating in front of Queen's Park and saying, "What are you going to do to save our jobs?" and you say, "I feel badly for you but I can't do anything."

But when you do get a chance not only to save jobs but to increase jobs—and I take great exception to the fact that you said with the \$30 million that went into the van plant, Chrysler didn't create a single job. That just isn't true. Windsor is now the major Chrysler van production centre in North America. It's huge. It's a bonanza. You talk to the people in Windsor and they will tell you how much they appreciate what Chrysler is doing in Windsor with its van plant.

I agree with you that perception is everything and some of the points you made I agree with. But I'm saying there are certain areas that you have to understand that there's a reason for doing it and it isn't just saying, "Let's give these multinational companies some money to keep them happy." Because when you look at investment, the investment that goes into a CAMI or the investment that goes into the van plant, we're talking \$300 million, \$400 million. The amount of money that the government contributes is peanuts, but what it does is it levels the playing field. It means that they can be competitive with their sister organizations to try to get that business.

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We win some and we lose some. We have bid on plants where we've put together packages and they've said, "Sorry, Missouri or Kentucky or someone else had a better package and you've lost it." Those are opportunity costs that affect everybody. They affect the consumers and they affect the suppliers.

It's easy to be critical. I've sat on both sides of the fence. I've been a minister and I've been in opposition. I try to weigh my criticism, to criticize when I think it's valid, but not to criticize just for the sake of criticism. I just felt it was important that we get that on the record.

The other thing I want to do is agree with you about the saturation of the tax position and how important it is. If you take a look at what's happened in the last three years, the taxes have increased in Ontario by \$3.5 billion over that three-year period, but the tax revenue has dropped by \$2.4 billion. So with that significant increase in tax, it hasn't resulted in increased revenues. There can only be one reason for that, and that is, the higher you go with your taxes, the more people you drive out of the system who are prepared to pay the tax and you get a law of diminishing returns. So I completely agree with you that there has to be another system.

I just want to share one other thing with you that I have tried to convey to this government to no avail. I had a major manufacturer come in to see me when I was the minister. He said to me:

"Mr Minister, governments don't understand a very basic principle. We in business are not taxpayers; we are tax collectors. We have an obligation to our shareholders. We have to have a certain return on our investment or we don't get it.

"If you increase the tax to business, because you say, 'Let business pay,' all we do is pass it on to the consumer. We collect your tax for you. Not only do we collect it, but we mark it up, because when we calculate our costs, we put in the tax and then we put our profit on top of that. So we get paid for collecting your tax and we remit it to you.

"You've got to disabuse yourself of the feeling that we are paying taxes, because we're not. We are collecting taxes. The person who's paying the tax, and the only person who is paying the tax, is the last guy in the chain, the consumer, because he or she pays everything that we have to pay, which is built into the price."

I take your point. I think it was well made and I encourage you to continue on with all of the fabulous work that your organization does. I've always been supportive of it and I will continue to support it.

Ms Bushnell: I'd like to respond, if I could.

The Chair: By all means.

Ms Bushnell: You talk about the money to Chrysler, and you're talking of overcapacity and all this. First of all, you have to realize, in the presentation that I'm making, I'm talking about the perception. We do not have the resources government has. We do not have the resources some of the people who have presented here have to hire an accountant and all that.

Mr Kwinter: I understand that.

Ms Bushnell: I know you disagree with some of my examples that I give, but what I'm talking about is, this is what we see in the newspaper and these are the things we react to. If you say they're inaccurate, that's how we pick them up. That's out of the newspaper. That's what I was trying to convey. That's an example of the things we read about and that gets us going.

The other thing I wanted to say is that we perceive ourselves, when it comes to the economy, that we account for 60% of the economic activity. So when you say, "Oh well, we'll give \$30 million here and \$34 million there and that's really going to stimulate things," we say: "No, no, you've got it wrong. Leave it in our pocket and that \$30 million will be spread out to a lot of businesses and a lot of companies."

There's not just the automobile industry in this world. There are a lot of other industries that are really suffering and dying, because people haven't got the money to go and buy and support them. The clothing industry has had a really difficult time. I guess what we're saying as a consumers' association is, leave us the purchasing power. If we have money in our pocket—there's a variety, from interprovincial trade barriers where everybody loses, nobody makes money out of this, to taxes, to whatever—leave us the money and we will be more than happy to stimulate the economy, so maybe you will not have an overcapacity.

I remember as a child it was common practice that you

changed your car every two years. I agree that cars were not as well built as they are now, but now people hang on to their cars simply because they can't afford another one. We cannot afford to replace them.

This is what we're trying to convey. Leave us the choice about what industry it is we're going to stimulate. People are employed in a variety of things. Some people do work in restaurants, and maybe those are not the best-paying jobs, but for some people that's the job they want to do and have the ability to do, and they're quite happy with the money they make there and they're satisfied. It doesn't have to be \$58,000, \$60,000 a year. I guess that's what I'm trying to convey.

I don't debate some of the things you're saying about the economy. I am not an economist. I do not have the resources you have to research, but I can tell you my reaction, as a consumer, as a citizen, as a taxpayer, is: What business do they have to give my tax dollars there? I would have loved to keep a little more of my tax dollars, \$200 I might have spent on something else. That's what I'm saying. I'm talking about our reaction, okay?

Mr Sutherland: Do we have time for one more?

The Chair: About five minutes, actually.

Mr Sutherland: On that point, the normal theory of taxation says you should try and develop a progressive system and that income tax is the most progressive system versus a sales tax, which is regressive.

Ms Bushnell: Somewhat regressive.

Mr Sutherland: But in this type of economy some might argue that you might be better off to increase the sales tax rather than income tax to make up your revenue, because there are so many businesses out there who are absorbing sales tax to bring the thing in; that if you leave the income tax money in the consumers' hands, they will go and spend it, and that forces the marketplace to be more competitive and that would have a better economic impact. Do you have any comments on that? I know it goes against the so-called traditional theory of progressive taxation and what to do.

Ms Bushnell: Actually, a majority of our members believe the income tax is somewhat fairer, that it taxes the people who make the money. In that sense, we feel that the problem with the income tax is that it has to be moderate, because when it gets to a point where it destroys the desire to work a little harder, people say, "Well, that's quite enough." I've talked to people who are truckers and they say, "Hey, I only work eight, nine months a year because I've got enough money to go and enjoy life." I'm thinking that's all very nice, but this isn't very good for the Canadian economy. People should want to work and improve their lot, but they say it gets to a point where it doesn't improve things anyway.

I interjected when I said it's somewhat regressive, the sales tax. It's not totally regressive, because people with more money tend to spend more so they pay more taxes, but what consumers are really interested in when it comes to stimulating the economy is that first they have to have some money left to them, and the other thing they're really interested in is the end price. We talk a lot about

taxes, and this is why I brought up this thing about international trade barriers. If we could cut this wasted money that nobody gets money out of, and if things could be produced more cheaply and of as good quality, with the same salary for everybody, that kind of wonderful stuff, then the consumer will say: "Hey, I can buy more. I have more purchasing power." Those are the strategies we really need to look at and move forward. I know there's a lot of work being done to tear down those international trade barriers, but the faster, the better.

The Chair: I just wanted to make a couple more comments before you go, just so you can leave feeling maybe a little better about MPPs. As I already said, when the Legislature is sitting we don't receive any additional money, so you can rest assured that this committee you presented before today didn't receive a single cent extra for being here and listening to you.

Ms Bushnell: I feel much better then, because we're on par. I had to forgo a day's pay to be here today. I'm from southern Ontario, so I travelled. I feel we're equals in that.

The Chair: We can always debate whether there are too many, I agree, but the notion that parliamentary assistants shouldn't be paid additional moneys, well, if they weren't paid additional moneys, then they certainly would have no incentive to do the work that's required of a parliamentary assistant in the particular ministry they represent. We can argue, are there too many? I wouldn't want to suggest that isn't a relative argument.

The comment that executive assistants are paid \$84,000, you didn't identify exactly which executive assistants you're speaking of, because the executive assistants I associate with, who I know work many more than 40 hours a week, make probably in the neighbourhood of \$40,000. If they should read this, they might be offended to read that. Again, I understand you're saying that this is just the public's perception of what reality is, and it's not accurate.

Ms Bushnell: I certainly am in no position to debate what salary and who gets what. But I can tell you, this is what appears in the media.

The Chair: That's what I was going to say, if you read it in the media—

Mr Sutherland: You'd prefer a flat salary, get rid of tax-free allowances etc, just make it a straight flat salary for MPPs and get rid of these other little things?

Ms Bushnell: I'll tell you quite frankly, I have not wrapped my mind around this. I think this is the job really of—you have some human resources managers and that sort of thing, accountants.

The Chair: On a final note, the social contract has affected all of us. We've lost what, a little above 5%, I think, of our total salary and benefits and everything. So we've been affected as well by that infamous social contract.

I want to thank you very much for making your presentation before the committee this afternoon.

Ms Bushnell: Thank you very much.

The committee adjourned at 1751.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Lessard, Wayne (Windsor-Walkerville ND)

Mathysen, Irene (Middlesex ND)

*Phillips, Gerry (Scarborough-Agincourt L)

*Sutherland, Kimble (Oxford ND)

**In attendance / présents*

Substitutions present / Membres remplaçants présents:

Dadamo, George (Windsor-Sandwich ND) for Mr Lessard

Wilson, Gary (Kingston and The Islands/Kingston et Les Îles ND) for Mrs Haslam

Wood, Len (Cochrane North/-Nord ND) for Mr Wiseman

Clerk pro tem / Greffière par intérim: Bryce, Donna

Staff / Personnel: Campbell, Elaine, research officer, Legislative Research Service

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Troisième session, 35^e législature

Official Report of Debates (Hansard)

Thursday 25 November 1993

Journal des débats (Hansard)

Jeudi 25 novembre 1993

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Underground economy

Économie clandestine



Chair: Paul R. Johnson
Clerk: Lynn Mellor

Président : Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 25 November 1993

The committee met at 1005 in committee room 1.

UNDERGROUND ECONOMY

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. We continue today with our deliberations in examining the underground economy in the province of Ontario.

LOCAL EMPLOYMENT AND TRADING SYSTEM

The Chair: Our first presenters today are Sat Khalsa, administrator of the Local Employment and Trading System, and Mitchell Gold. Would you gentlemen please come forward and make yourselves comfortable in front of the microphones, and whenever you're ready, please proceed. Could you also please identify yourselves for the committee members and for Hansard.

Mr Sat Khalsa: Good morning. I'm Sat, and this is Mitchell Gold. Mitchell is the chancellor and director of the International Association of Educators for World Peace. He's a member of LETS and a consultant to it. That's why I invited him to come with me this morning. Go ahead.

Mr Mitchell Gold: Good morning. I'm a recent member of LETS. I got involved with the LETS system because I saw its importance in the future of the economies of the world. As Sat mentioned, I'm with the International Association of Educators for World Peace, but that's not really germane from either an intellectual perspective or an operational perspective.

In 1975 I created the first barter bank in Canada in the field of radio programming, a radio barter bank. In the economy of Canada at that time in the radio industry, what I was doing was the leading edge in radio. We set up a barter bank. It was not understood by the industry. We were so successful in the creation of our industry—we were in the radio programming industry, which our federal government was interested in stimulating—that people in the industry were frightened of us and put pressure on us to shut down.

How they put pressure on us was by buying our programs instead of allowing us to barter them. That may sound strange to you, that here's someone who's coming up to us with cash for something that we would prefer to barter. The reason for that was it was one of the major systems, the Moffat group out west, and through their efforts of wanting to buy our programs, we were forced to shut down because we were doing national advertising sales, and for every market, we had to buy our way back on to our own programs in order to deliver the product to our advertisers. This was one area of misunderstanding of the industry, of barter, and the pressure came from the radio rep houses.

The other area of misunderstanding of barter came from our banks. I had about \$250,000 in barter time across the country and I wanted to go to my bank and borrow money against it. They said, "That has no value."

I said: "What do you mean, that has no value? I can sell this tomorrow for \$100,000 easily. I don't want to." The banks, in effect, forced me to sell off a lot of my time at an extreme discount because they didn't understand barter.

Here I find myself in 1993 sitting in front of a committee that I'm quite sure doesn't really understand what the LETS system is. I've advised Sat that we ought not to address the committee because you are looking at an underground economy. We are not an underground economy; we are a parallel economy. If we are a parallel economy, we ought to be working together. In the field that I'm currently working in, which is global education, we're talking about how everything is interconnected. And according to Hazel Henderson, a leading futurist in economics—I heard her speak recently at the World Future Society in Washington—between 30% and 40% of the world trade is done in barter.

I want to just back off on the word "barter" a bit, because I seem to use it here rather often. We're not really barter. What we are is an alternative accounting system, because we don't really barter anything. People who participate in the system are urged to pay their taxes. I say "urged" because it's easy for them not to, and I think that's where your concern is. It's easy for someone not to disclose the taxes.

Since my association with the organization, I am participating in the—how would you call it?—definition of a philosophy. They have the philosophy there already, but I'm having it enunciated more clearly on why participants ought to be paying their taxes when they participate in our system. The reason why is that it's a cheaper form of tax. The overall system, the government's system, is not able to finance itself and it's taking 40% or 50% of our dollars.

You guys are running in a deflationary spiral and you're out of control and you don't know what you're doing. That's why you're trying to find out: "What's this underground thing? We want to know about it. How large is it?" We have no idea how large it is. All we can do is teach you about our system and how you, by being members of our system—and I'm not just talking about you the government or you the committee. I'm talking about you as individuals participating in our system to see how it works for you, how it can become better for you, because if it can become better for you, you'll instantly see how it works in the larger context. If you don't see it for yourselves, you certainly won't see it for the system.

So what we're here to do is to urge you to view it on an individual basis and maybe on a committee basis, and maybe recommend a government basis to get involved with our system, see how it works, participate with us, because when you see how it works, you'll understand it.

Again, I'll make the analogy to our educational

program: It's experience. It's through the experience of it that you learn. You'll read our lead sheets and you'll read the information that we put out, but it's just information, and what we're trained to do, because this is our nature, is to look at how it won't work for us. If we look at this system as to how it won't work for us, what you will find is that it won't work for you. You're going to get what you see. If you look at it to see how it will work for you, amazing as it may sound, you'll find it will work for you.

So we can't really give you anything specific about the underground economy, because we are not that. We're open to answering any specific questions you may have on how you can participate in our system so that you can learn exactly what it can do for you and for our government, for our country.

More importantly, we have a proposal that we're putting together whereby we can facilitate the dismantling of the welfare structure by using our system. We look at the part of our system that we call the welfare system, which seems to be entropic and continues to grow within itself. We see that by using the LETS system, there could be a process of empowering people who are caught in that trap to get out of that trap. This is a very exciting concept, but for this we do need government support. We need the approval—

Interjection: Ah choo.

Mr Gold: God bless, and it's nothing to sneeze at.

Mr Jim Wiseman (Durham West): This is a hard crowd to work.

Mr Gold: It is. I think that's probably the best I can say in this short time. I will be open for your questions.

The Chair: Sat, did you—actually, I should say Mr Khalsa. It was nice to have met you earlier.

Mr Khalsa: "Sat" is okay.

The Chair: Do you have any additional comments to make before we go into questions?

Mr Khalsa: No, we can go directly into questions. I think that's the easiest thing to do.

The Chair: Okay, we have about half an hour for questions. That's about 10 minutes per caucus.

Mr Gerry Phillips (Scarborough-Agincourt): Maybe to help me understand the LETS system, you can just run us through kind of a typical example. I tried to read your material quickly here, that it would be kind of in a geographic community and people would barter goods. I would appreciate what the tax implications of that are, and just take us through that.

Mr Khalsa: Okay, sure. Let me run through some concrete examples. For example, the LETS system itself has to print its materials every month. It prints a little newsletter that it sends out to people and it has a kind of classified ads section of goods and services people want to trade. We have to print that. So we go to one of our members and we say, "How much does it cost to do the printing?" They say, "It costs \$100." We say: "Whoa, we don't have that. How much green can you use?"

Mr Phillips: How much what?

Mr Khalsa: Green dollars. Think of them as barter

credits. "How many barter credits will you give us?" So they say, "Okay, we'll do it for \$50 cash and \$50 barter." So that's good, because we have \$50; otherwise we wouldn't do the trade. They wouldn't get \$50 cash; they wouldn't get anything. So we give them the \$50 cash, we give them the \$50 green. On top of that—this is a business here; they're a small business—it's \$100 of product that they're selling to us. We have to pay GST and PST on the full \$100. So we do. So it costs us \$65 cash and \$50 green. They have to declare the green dollars as income and they have to pay taxes on it.

At the same time, if they go to someone else and get consulting or get a sign painted—or, for example, we have a newspaper, the Kensington Drum, that is a member of our system. They can buy advertising in it for 75% green dollars. So when they spend those green dollars to get the ads—and again, they would pay GST on the full amount and PST on the full amount—that's a business expense for them.

In other words, green dollars are exactly like cash dollars in every way. The only difference is that it's considered to be income in kind. There's one exception to treating it exactly like cash, which is when the printer goes home and as a hobby or on an occasional basis he fixes the neighbour's VCR or tinkers with the neighbour's bike or gives the neighbour a loaf of bread and in exchange gets green dollars. Those green dollars are not taxable. This is the ruling of the department of taxation for the federal government. So that's the only difference between green dollars and cash dollars. In other words, spending green dollars has the potential to stimulate the economy and to increase tax revenues, and at the same time people who are short of money can increase the goods and services they have access to.

Mr Phillips: How many of these organizations are there in Ontario?

Mr Khalsa: At least 12 seminal. I don't know to what extent they've all developed. It started in Ottawa four years ago or maybe five years ago and Toronto started three years ago, and through the example of Toronto, at least 12 have started.

Mr Gary Carr (Oakville South): Thank you very much for your presentation. I didn't get a chance to read the Revenue Canada bulletin that was provided, but it talks in there about, "The department takes the view that the barter transactions are within the purview of the Income Tax Act," and so on.

In terms of—I hate to say the word "policing"—do you think it would make it easier to be able to collect income taxes through this system? How much more difficult or easier would it be through some of your systems as opposed to our present system?

Mr Gold: When you say how much easier would it be, I'm not really clear on what your question is.

1020

Mr Carr: I guess through other transactions we're hearing a lot from the construction people who are saying they'll do it without the GST and they're eliminating it. They say, "Here's the price, and if you pay cash, it's a certain amount."

Mr Gold: Those are people who are being unethical in the system. We do not promote unethical business transactions.

Mr Khalsa: In the same way as people can be unethical in the cash economy, they can be unethical in our economy. However, the fundamental idea that we're trying to get across to people is that by working together, by playing fair, there will be enough for everyone. So when someone decides to not report it, then they don't get credit in our system. If they don't get credit in our system, then they get shut out in a way. They don't build their reputation. If they don't record green dollar trades, they don't have the green dollars. They can't spend them somewhere else.

Mr Carr: In the green dollars, is it pretty easy to come to a fair price? Is there a lot of discussion or is it fairly simple to say, "This is what I believe," because you talked about the number of green dollars and so on. Is that fairly easy to do when you're involved in a transaction?

Mr Khalsa: You see, the primary implications as far as tax goes are for businesses which are GST-registered. For individuals who are not making green dollars as their main form of income, it doesn't really apply. But in the case of a business, it is very clear that our members expect those businesses not to be inflating their prices. They expect the green dollar figures and cash to be equal to their regular prices. So I think it is a simple matter to establish how much the in-kind should be.

Mr Carr: It says here, I think, that where goods or services can't be readily valued the department will normally accept the value of the latter as being the price at which the transaction took place. Can you agree with most of what's said in this Revenue Canada bulletin, or do you have any problem with it?

Mr Khalsa: We follow it. It's the law.

Mr Gold: One of the things I'd like to mention is that since I've been involved in the system, I asked a couple of friends of mine, "Are you in the system?" These are people who are more aware than most of the way the system works. They said, "Well, the system can't afford me." I said, "Well, what do you mean?" He said, "Well, I need \$1,000 a day for my time." So I said: "Okay. How about if I put a transaction together and I'll pay you \$500 cash for your time and \$500 green for your time? Would you accept that?" He said, "Sure."

I happened to be in Chicago at the time talking to a friend of mine, and I put a \$2,000 deal together to get this fellow. We're actually effecting international trade, if you want to look at it that way: He's going to get work down in Chicago. He's going to get \$1,000 cash. My commission is going to be the US exchange, that I'm going to pay tax on. I'm paying him in green dollars for the trade. So I benefit, he benefits, the Canadian government benefits; everybody benefits. I don't see a loser here in this one. The Americans get the benefit of a Canadian service.

Mr Carr: Thank you very much. That was very helpful; very informative.

Mr Wiseman: I'd like to explore, perhaps if we can

from an economic point of view, why it is that the LETS system is growing. You said in your last example that the system can't afford the \$1,000 that he would charge for his fees. Why?

Mr Gold: Most of the people who are operating in the system right now are people who are using it in, call it, a low-range economic capacity, like \$100 here, \$200 there. There aren't the larger numbers. It needs someone in the system to see the way the larger numbers can work. I can see the way \$1,000 can work. I haven't scanned their books, but how many \$1,000 trades have you had since you've been in operation?

Mr Khalsa: About 240,000.

Mr Gold: How many \$1,000 trades?

Mr Khalsa: Oh, \$1,000 trades? A few.

Mr Gold: A few? One? Two? Three? Five? Ten?

Mr Khalsa: Five or 10.

Mr Gold: I've got two \$1,000 trades to do in my first month. It's the people who are involved in it.

Mr Wiseman: What's lacking from them that there's a problem?

Mr Khalsa: Basically, what it is is that people join our system and they think about it exactly in terms of the current cash economy and they're very scared about big numbers. They're people who are used to living with very, very little money and they're very, very scared of debt. So they bring the same attitudes of fear and lack into our system that they have in the other system, even though the reason they join us is because it's a way of increasing their ability to get the things they need. So they're still very hesitant to trade.

Mr Gold: Plus, I think you must recognize that until the media come out and support what we're doing more from a philosophical base, and the government too, not just media, to understand how we can help each other, the larger trades are not going to happen, unless we become more a barter bank where we take inventory. Up to now, we don't take inventory. It's just a trade. Paul, you might want to make a trade through our system.

Mr Khalsa: We really don't have an intention of becoming a barter bank. There are barter banks in the city of Toronto and throughout the province.

Mr Gold: Throughout the world.

Mr Khalsa: Yes, throughout the world. They work on a certain scale, but they're designed to make money. Our intention, the reason we've started it up, is to allow communities to start taking care of themselves, because the current structures are breaking down and the government isn't in a position to be able to take care of them. People feel desperate and we want to give them a means where they can change that around, recognize that they have resources that they can put to use to take care of themselves.

Mr Wiseman: How much time do we have left?

The Chair: You have time.

Mr Wiseman: I note Mrs Haslam—

Mrs Karen Haslam (Perth): You go ahead. I only have one question.

Mr Wiseman: I have two questions.

Mrs Haslam: Could I just ask my one question and then maybe go back to Mr Wiseman, if that would be okay?

The Chair: Sure, if that's agreeable to Mr Wiseman.

Mrs Haslam: I just want to be clear on the taxation coming to government or the revenue coming to government to cover health care, the education system, municipal roads. You take advantage of all those systems.

Mr Gold: No, we don't.

Mrs Haslam: You don't travel on roads?

Mr Khalsa: We pay taxes.

Mr Gold: We use them. We don't take advantage of them.

Mrs Haslam: Okay, that's my point. You use those, and the maintenance of those systems comes from tax dollars. So could you just clarify for me how you pay tax on the green dollars? Do you pay tax on the green dollars?

Mr Gold: Yes. We went through that earlier.

Mr Khalsa: We went through that.

Mr Wiseman: Do you pay income tax?

Mr Gold: Yes. We pay tax on everything. Taxes get paid on everything.

Mr Khalsa: According to the tax rules.

Mr Gold: Both on an income level and on a GST-PST level. We are urging that the GST-PST be paid. I think your point is absolutely 100%. If we do not pay those taxes, we are taking from the common good, and if we're taking from the common good, our system is morally bankrupt. We have to contribute to the common good.

Mrs Haslam: I just wanted a clarification on that. I apologize for being late because of another meeting. My concern was that it's fine to barter, but if you use the systems of the common good, paid by the common good, then there has to be some way of you contributing to that. I appreciate your answer. Thank you.

Mr Khalsa: I want to take that point a bit further though. The thing is, from my perspective, to take the extreme case, if no taxes were being paid on green-dollar trades, nevertheless the cash economy would not be hurt by what we are doing. This is the point that small businesses have difficulty understanding when we encourage them to join. If a small business joins our group and it says, "Take 10% in green dollars and barter credits," it's scared that will mean 10% less income in cash. That's not true, because if you give people \$10 extra, what will they do with it? They'll spend it. They'll probably spend it at the same place to get more.

1030

Mrs Haslam: To go back, I disagree with you here. My concern would be the taxation on that. To me, it's similar to saying: "Give me \$50 cash. I'll give you a bill for \$100 because you've given me a cheque for \$100, and therefore you pay tax on only the \$100." So what I want to know is you're paying tax on that \$50 cash in the pocket that the person in the underground economy is

saying, except the difference is between the words "cash" and "green dollars." I want to be sure that the taxes are being paid on your green dollars. I don't want to take any more of Mr Wiseman's time, but that's my point. I wanted to know that you were paying, on the green dollars, into the tax system—

Mr Khalsa: Well, we are.

Mrs Haslam: —to provide the services the government provides for you. If that wasn't the case in a very formalized way, then it is no different than a gentleman or a lady saying in her business, "Give me \$50 cash and put \$100 on your credit card."

Mr Khalsa: I know I'm being politically unwise to get into this at all, but nevertheless—

Mrs Haslam: I don't want to take Mr Wiseman's time. That's the only concern.

Mr Khalsa: Nevertheless, I do want to respond. If I'm a housewife and I'm at home and the neighbours need me to babysit because they have to rush off to do something and I babysit for them and I don't pay tax on the fact that later on, as a kind of return of the favour, they do something for me like give me an extra piece of clothing they have in the house, to me, the government is not being denied its fair share of actual resources.

Mrs Haslam: I agree.

Mr Khalsa: A lot of what's happening in our system is just like that.

Mrs Haslam: But it's taking place in a formalized position, in a store where they buy goods, and they sell them, on a receipted basis, less than—

Mr Khalsa: But in the store, it's changed.

Mr Gold: The store, the dentist—I would rather use a dentist, because one of our board members is a dentist and he works on half green and half cash. His invoice to his customer goes to the full amount in his books. Debit accounts receivable \$50, debit green \$50, credit revenue \$100. He pays tax on \$100.

Mrs Haslam: Okay.

Mr Gold: He pays GST on whatever the goods in it. Everything is exactly the same, and this is where you missed in my opening comments where I said we are not an underground economy. We are an alternate: alternate, parallel, and I don't even like the word "alternate." Parallel is what we are. Think of us as parallel. Think of how you can use us. Each individual here can use the LETS system by looking at the way they spend money. Become a member of LETS, see how it works for you, and then you'll be able to advise the economy on how it should be done. But you're not going to be able to advise the economy unless you experience it. You know, I can't explain to you what the colour green is. You have to experience it.

Mrs Haslam: I appreciate your clarification, and that's the clarification I wanted, that the taxes were being paid on the total billing sum. That's all I wanted to know. Thanks.

Mr Wiseman: I'd like to go back to this notion about money and the reason you're having to do what you're having to do. I'm not sure if I can raise this in a way that

maybe you can respond to, but it seems to me the system has developed because there isn't enough hard cash in the hands of people who need it to exchange it.

Mr Gold: Our brother in the parallel system is having troubles. This is what the nature of your question is. Why is our brother in the system having trouble? Why do we go from an AA rating to an A- rating? Why is the global economy having a problem? These are large questions.

Mr Wiseman: I don't want to get that big, but I suspect that some of them are related.

Mr Gold: You may not want me to answer that, but that's the way it is. If you choose, you can blame Bob Rae for the situation of our province, but it's not Bob Rae's fault that the world is having a problem. The world is having a problem.

I travel the world. I go to Malta; I go to Panama. I hear the problems on a global level, and at the World Future Society I hear leading economists talking about the global problems. You can't come down here and think this isn't why we're having the problem here. We're having the problem here because everyone's having the problem.

Once we recognize we're having the problem, how do you stimulate your economies? My belief is that with a very simple way of looking at what we're doing, you can stimulate our economy very effectively, and it's going to benefit everybody, our parallel system and ourselves.

Mr Khalsa: I think the analysis we have in some of the papers there, which you might get a chance to look over, is very simple but at the same time very powerful. If you're dependent on money to make everything happen and yet money must leave your community, you're going to be short. When you've monetized everything, when even a mother's love becomes monetized and you've got to pay for it, then there won't be enough money to pay for all the things that have to happen. What our system does is it doesn't take that on head-on. It just creates a different mechanism whereby money won't go away.

Mr Wiseman: So how are you going to use Bill 40?

Mr Khalsa: Bill 40?

Mr Wiseman: Community economic development. You made the presentation, I think, to the community economic development committee when we were doing the hearings in the summer.

Mr Khalsa: No, I didn't.

Mr Wiseman: Somebody from this group did, because I remember it.

Mr Carr: I think they were here last year in finance.

Mr Khalsa: Yes, that's what it was. It was the same committee.

We are trying to apply to that program to get funding because we believe green dollars would increase the bang for the buck in terms of encouraging community economic development. It's already been proven in the US that a Meals on Wheels program, for example, in Miami doubled its volunteers and quintupled the amount of food it delivered with the same amount of cash: no increase in cash funding; an increase in delivery. It encouraged people who had never volunteered before to volunteer

and it dropped the volunteer dropout rate from 60% to 2%, believe it or not. So that meant staff time wasn't involved in training volunteers; it meant the staff time was involved in doing other things.

That's why the governments there have funded it. They're funding it for senior citizens because it's cheaper to have a neighbour take the senior citizen shopping than to pay a day nurse. There are very direct, immediate benefits. The longer-term benefits are less clear and less easy to explain, but those immediate payoffs make it justifiable right there.

The Chair: Mr Khalsa and Mr Gold, I want to thank you very much for making a presentation before the committee this morning. I apologize for the late start. I also want to thank you for the printed document that you've supplied us with.

Mr Gold: I look forward to you all becoming members of our LETS system.

FRANÇOIS VAILLANCOURT

The Chair: Our next presenter this morning is Mr François Vaillancourt, professor of economics from the University of Montreal. Welcome to the committee. Please make yourself comfortable, and whenever you are ready, please proceed.

Dr François Vaillancourt: Ready when you are. I believe the committee clerk has distributed a very small handout of two pages. I'd like to thank you for having me this morning.

On Friday, there was a conference at the C.D. Howe Institute in Ottawa, and I had the occasion to read the proceedings of your meeting with the Treasury group, including Mr Spiro's presentation. I phoned the committee clerk on Monday and said, "Do you really want me? I think you know more about this than I do," but she convinced me that perhaps it was still useful for me to come down from Montreal. So thank you very much.

The outline you have in front of you has three dimensions.

1040

The Chair: Dr Vaillancourt, just before we start, we haven't received your handout, but we will forthwith.

Dr Vaillancourt: Okay. It's an above-ground distribution system.

The Chair: Okay, you can proceed.

Dr Vaillancourt: I thought, when I was asked to come, there were three issues of relative importance: What we mean by the underground economy; its importance; and, mainly, what to do about it.

You are clearly by now fairly aware of definitions of the underground economy. I would like to make perhaps one point which is not in the handout as such, where I have outlined four methods—national accounting methods, survey methods, tax auditing and monetary aggregates—which is the issue of the pricing of the underground economy. This is relevant for the monetary aggregates method, which you've had people explain to you before, like Mr Spiro or perhaps Mr Smith from Alberta has done or will eventually do.

When we use the monetary aggregates method, we implicitly assume that the price level for the underground economy, which we cannot measure clearly, remains the same when we say that an increase in the money circulating in the underground economy represents an increase in the quantity of underground activity. This, I think, is of some importance with respect to the introduction of the GST and its impact on the underground economy, since I would argue that before the GST was introduced, a normal process to the introduction of an underground transaction was for someone to call in a tradesperson and say, "How much is it with a bill?" "It's \$1,000." "How much without the bill?" "That's \$800." The reduction in the payment for the purchaser of the service was agreed to because there was some fraud going into the personal income tax with the provider of the service.

With the introduction of the GST on services, in Quebec the retail sales tax being expanded to some services, some taxation of goods in Ontario still, and perhaps eventual changes in the goods and services tax that I mentioned earlier and the Ontario retail sales tax, there is probably a 10% sales tax rate overall, provincial and federal. This means now that the price you're quoted with a bill is \$1,100. If the provider of underground services still wants the same margin to manoeuvre with respect to the official pricing as opposed to the underground pricing, the amount he would ask for would be \$900. So for the same amount of work done in the underground economy, the price paid for that work would have increased—\$800 to \$900—roughly 12.5%.

We do not know anything about this. I just should warn you that this has a direct impact on the measurement using cash methods. I've asked Peter Spiro this question. He said, "We don't know." I agree, we don't know, but it may as a result lead us to slightly overestimating what's going on from a cash methods point of view. So that was one point that I think has not been made before in front of you, and I think it's an important point.

So what is the importance of the underground economy? I refer to a few studies. Your own work shows it ranges from 7% to 20%, perhaps, in 1991-92. My personal preference is to believe the low end of the range, 7.5% of gross domestic product, about \$50 billion to \$55 billion.

Why do I believe that? Because if you try to calculate the underground economy on a sectoral basis as opposed to an overall basis, and you have to say, "In this part of the economy there must be so much going on; in this part of the economy there must be so much going on," you find it very difficult in many sectors to assign a very high percentage of underground activities.

If we take the production of government services, for example—health, education, municipal services, federal and provincial government—this is a fair amount of the gross domestic product in employment, and there is no underground economy going on; it's aboveground. In some manufacturing, it's very hard to imagine—the production of airplanes, for example, or subway cars—there's an underground economy.

So when you do these adding-up exercises, you of

course are left with the construction industry—we all know about the construction industry being important—and provision of services to individuals. But these are not the entire economy. You would need very high numbers, I would argue, to get a 20% underground economy overall, given the areas where there is none. I cannot demonstrate these numbers any more than anybody else, but I think one should be aware of that. One consequence of this is the issue of targeting.

Since government committees have to come up with recommendations for action as opposed to philosophical issues, what are the remedies and causes that could perhaps be considered in terms of the underground economy, defined as the economy on which taxes are not paid? That's what's important to you, I believe.

Having said that, let me start with non-tax remedies. One dimension of the overall underground economy is the issue of illegal activities. I believe the next witness is from the OPP. I was told he will talk about the dimension of illegal activities. Redefining illegality can have consequences on the tax base. If you make, if not prostitution, all activities associated with prostitution illegal, do not be surprised if prostitutes and people who live off the avails of prostitution do not report the income. Should you decide to make prostitution legal—and actually it is legal, strictly speaking, but all the activities via soliciting are not—then that would tend to draw some additional income into the tax net.

Clearly this is an issue which is a difficult one. It could go on to the issue, for example, of illegality of drugs. They're not provincial jurisdiction, they're Criminal Code jurisdiction, but they have consequences on a core underground economy which must remain hidden from both the tax and police activities and in a sense provide a basis, an infrastructure. Presumably a pizza parlour which is perhaps used to launder underground cash would also be quite happy not to charge the GST, and the retail sales tax in addition, for some cash transactions. So there is an issue there of what should society do in terms of what is legal and what is illegal in a society, and that's a morality issue up to a point.

The second issue is the enforcement of existing laws. You may not be aware of this, but recently French CBC, Radio-Canada, showed a video of Indians selling illegal cigarettes as police cars drove by, literally, on the same video. The issue was raised in the National Assembly to Mr Ryan, who is the Minister of Public Security, and Mr Ryan said, "No, I will do nothing." We're told right now that in the consultations of the Quebec Liberal Party leading to the, presumably, choice of Daniel Johnson as the future leader, one of the three issues that comes up in the informal consultation of the people of Quebec is the issue of the illegal sales of cigarettes and the overall respect of the law by people, and in this case by aboriginal peoples. One of the three leading issues raised on a regular basis, apparently, is what comes out.

I was asked recently, is there political will to apply the law? I don't know, but that's for you to decide, not for me. I can simply say that, as an economist, one knows in our formal model there is such a thing as the taste of individuals and that individuals learn how to behave in

part by the behaviour of others. If you tell everybody else, "We're all going to cheat except you have to remain honest," it's a bit more difficult to convince people to do that.

The third comment on a non-tax remedy is to avoid price controls in all sectors. This is particularly important in Quebec in the construction industry, but in general the studies across the world show that when you try to regulate prices, if the price you set through regulation is too high or too low—it depends if you're buying or selling, usually—automatically people will react and try to avoid the system.

Tax issues: I think a general philosophical comment is appropriate here before coming to tax remedies. Some people have argued that what we're trying to do in Canada is to have European standards of services and American levels of taxation. I would make a different argument. I would think that what we're trying to do in Canada is to have a European or a Canadian level of government services but at the 20th-century and 19th-century levels of privacy. We're really saying: "Oh, this is all my private life. The government should not know these things, should not be aware of what's going on, should not be able to ask questions, but on the other hand it should provide all these services."

In the 19th century, governments did not provide many services. Your income transfer or production of services was perhaps a net of maybe 10% of gross domestic product, as opposed to 40% to 50% of gross domestic product now, and probably it made sense to say, "My home is my castle," as the British expression goes, and to exclude the government from it.

If we want to be logical, after a given point we must admit that if the government does more and more, individuals are less and less responsible for their own welfare. Accordingly, there should perhaps be some greater level of intrusion of government. Or, if you want to go back to governments doing less, then perhaps individuals will do more and then there will be less there.

But we have a tension going on between these two aspects of society, which is not often mentioned in the area of underground economy or tax. I think it's important to be aware of that, this issue of responsibility versus contributions to society. If we are responsible for our own welfare, we may contribute less but we expect less. If we're less responsible, we contribute more but we expect more.

1050

What can we do, then, in the short term? There have been studies done in New Zealand that show that the idea of having your name published as a tax fraud makes you somewhat more hesitant to be a tax fraud. I saw mention in your proceedings that it's been done in Ontario in some cases, but in general the information available on who's been defrauding the system is not widely available. It's not publicized. There's no great attempt to do that.

I don't know if it's the case in Toronto, but in Montreal in the last three years every Saturday the newspaper publishes information on municipal court proceedings on dirty restaurants and food stores and what

was found and what the fines were. I think it has a direct impact. I mean, if I see a name mentioned, I will hesitate to go there, obviously, and my impression is that people are more careful because of that. It's impossible to document exactly, but clearly it is done. It is a judgement of the court and it's publicized. It's a decision made about three years ago by both the Montreal Gazette and La Presse to put that in the public domain. It was always available; it simply was not reported in the newspaper before.

I would argue—this is the issue of privacy—that some additional information on who is not contributing to society would be important and therefore to publish the names of tax frauds. One could imagine their pictures on stakes and all that. I don't think we want to go that far, but that would be something.

Mrs Haslam: Public lashings.

Dr Vaillancourt: No, no, no, no. Information is very different from public punishment. Some information is useful: Who is not carrying their weight?

Mr Wiseman: Let the market decide the punishment.

Dr Vaillancourt: Yes, we could do that too. But perhaps more within the realm of feasibility is the issue of auditing. I'm sure you've all read the Globe and Mail this morning, the page 1 comment that the Minister of National Revenue is considering increasing audits of the goods and services tax.

A couple of points I think are important here. First of all, one has to be very careful not to select audits only on the information available for those individuals already paying some taxes. If you do that, you tend to have what's called shadow businesses. You have three kinds of businesses or individuals: fully honest ones, those that are somewhat less than fully honest but still paying some taxes and those that are completely outside, maybe criminal or non-criminal.

If you concentrate on those where you suspect there's something going on, you may push some over the edge to trying to hide completely. The impact on your tax revenue is not certain; it would actually be negative if you do that. You need some logical audit rules but also probably some completely random auditing. An honest member of the Legislative Assembly who gets only a salary and has no other income still gets audited once in a while. That's one thing that should be considered.

Mr Wiseman: Those two over there.

Dr Vaillancourt: Well, yes, you can probably randomly pick one member of the committee if you want to. It may actually have a positive impact on your re-election to have been audited and have been found honest.

The second I mentioned is the issue of matched data. There's a story in the US tax circle of a man in Virginia who bought himself a Mercedes-Benz car and who had the registration papers delivered to him by the Virginia tax office, politely inquiring where he had gotten the money, since he had not filed an income tax return for the last three years. It was perhaps a good reason, but it's an extreme illustration of matching data of the car registration office and the income tax office, in this case. This is the issue of privacy I was mentioning before.

People are very reluctant to match data.

The third issue is simply to ask for more additional information from the taxpayer. Right now, if you have a child, when the kid is less than five or six years old, not going to school full-time, somebody minds that child during the 24-hour period, unless you're a very bad parent. The information as to who minds the children for pay is collected only from those who actually claim the child care deduction at the federal income tax level. No attempt is made to collect information from all of those who have children.

Imagine the following additional one line on an income tax return, "Please indicate who is minding this child during normal hours while you are working, and is this being done with or without pay?" Every taxpayer would have to sign that one line. This would require people who right now pay and do not ask for receipts—and I'm told by quite a few people I've asked the question to in Quebec recently that when you put an ad in the newspaper looking for a babysitter, 8 to 5 or whatever, one third of the people will phone in and say, "No receipts. I'm on welfare. I'm on workers' compensation. I'm on this. I'm on that. No receipt." This would require people to either deliberately lie or to tell the person, "I'm sorry, I will not lie on my income tax return." Right now, they're not lying. They're paying the person a given amount of money, they're not getting receipts, but they don't know officially if that person is or is not declaring income for income tax purposes. We all guess what's going on but we don't know.

This is the third kind of issue which, again, up to a point, is an intrusion in their private lives. You're being asked for additional information, but it generates additional information for the government to use.

In terms of long-term issues, and I'll close on this, Canada and North America are faced with an issue of increasing dissociation between the benefits received and the amounts paid by individuals for taxation. We're also faced with the fact that it's more and more difficult to tax capital. Capital is more and more mobile across jurisdictions.

As a result, I believe taxation will have to turn more and more towards user-type fees; for example, in the field of post-secondary education, having some Australian-type mechanism where you pay up front, you get a loan to cover that payment and you repay over 20 years. Those who go on to post-secondary education pay for it; and perhaps in the area of health care. We're going to have to be very careful in health care. A user fee does not mean that you pay \$5 and go to a doctor. You may get a bill at the end of the year, for example, or you may get a co-insurance principle.

It's quite intriguing now, the idea that we would continue to pay less and less taxes and get more and more services. I think you have to strengthen the link between what you pay and what you get. I think that's one of the key reasons. There are quite a few studies in the States doing simulations of individuals—in a simulation we're given all the rates, given the penalty rates—which show that when individuals believe that the benefits they're receiving from taxation are higher they

tend to be more willing to pay a given amount of taxes. I'm not saying they don't try to cheat somewhat—everybody tries—but there's probably a greater willingness if there's this feeling that there's some benefit associated with taxation.

The Chair: We have about seven minutes per caucus. We'll start with Mr Carr.

Mr Carr: Thank you very much for your presentation. I was interested in one comment where you referred to the story—I think I heard it actually on CBC radio this morning—about the auditors coming in and the number, the increase. I guess that means the GST is here to stay in spite of the election.

Mr Wiseman: Let's not be predeterminating about that.

Mr Carr: They're coming in and seeing the financial.

Mr Wiseman: Not fulfilling their promises too soon.

Mr Carr: What is your feeling on that particular situation? What impact will it have if, as we heard in some of the reports, and you mentioned the Globe and Mail, they increase the number of auditors by the number they do? Any idea what amount of revenue will come in and what it will do?

Dr Vaillancourt: No. It depends on how they've been targeting. I have colleagues, for example, who are into a net credit position since the opening of the GST in 1991, because they export services to international institutions in the US. They have never been asked in two and a half years, "How come you always get these refund cheques and never pay GST?" Nobody's come to ask a single time on that issue. If an auditor went and looked at that, he'd find it's quite legal, but there may be other areas where obviously they should come in.

One suspects that in the construction industry workers work in the good, white, well-paid sector when things are good and the cranes are up in downtown Toronto and construction is not stopped on the Bay-Adelaide centre, but when it doesn't go very well, they go into the underground economy. You could perhaps assign some monitors to actually do a construction industry project and track those workers and see if they actually do sell their rich car or go and get some cash, but will there be the political will to follow up on that? I don't know. It's a very difficult question. How well is it managed and how far are you willing to take the heat to go after cash that people are not paying taxes on?

Mr Carr: The other question I had was relating to what you talked about, the fee for post-secondary education and health premiums. In the federal campaign, no political party talked with regard to health premiums. I think one was going to throw herself over a railroad track and somebody else was going to do something great to protect against user fees. It was non-political; all of them said it.

One of the public's problems with even the increase in the fee for post-secondary education is that I think a lot of people wouldn't mind if they saw the taxes going down correspondingly. The big problem is the appetite of governments at all levels and political stripes as we add fees but we still have the taxes, even when we transfer it

and so on, because it comes down to the fundamental problem that we're spending too much.

1100

When you talk about higher fees for post-secondary—and I'll just use the example you used—how can we as politicians say to the public that we're going to then lower your tax rate in other areas? Because they don't believe us. How do you argue that if we could just get more fees, whether it's health premiums or post-secondary, all it will mean is that government will keep spending more money?

Dr Vaillancourt: Which party are you with again?

Mr Carr: I'm with the Conservatives. I don't know if you're kidding or if you mean it.

Dr Vaillancourt: I will send a list.

It's a very difficult question. Why I suggested that to begin with is that yesterday I believe Ontario's bond rating was slightly decreased. In the US, 25% of post-secondary education is financed by fees overall. That's current statistics for 1989, I believe, or 1990. In Canada it's 10% by fees overall. Oh no, that figure is for Ontario. That means, everything else being equal, given the way we finance, the Ontario public deficit is higher and the private deficits of students going on to post-secondary education are lower because we choose to finance through taxes. That was the argument for doing that: simply putting the books right; who gets the benefits, who pays for it.

On your second point that government is spending too much, that's an issue for legislators to decide upon. I would simply like to make one comment here. One often hears the following statement: In the 1980s we overspent. The deficits were too high—a \$10-billion structural deficit in Ottawa, for example; a couple of billion perhaps in Ontario—and therefore we should now cut spending in 1993-94 to make up for past sins.

Let's be careful here. If spending was appropriate in the 1980s and financing was inappropriate, one should not therefore cut appropriate spending in the 1990s to make up for past mistakes in financing. It would be as much of an error to do that in the 1990s as to have made the mistake in the 1980s.

I would have argued, if I was asked the question by the gentleman, that what you need is a catch-up tax for a few years on the baby boomers, people aged 35 to 55. These were those who in some sense benefited from extra spending in the 1980s. We cannot really identify and send you a specific bill saying, "You owe us \$7,200," which in some sense has some specific tax measure, but for a very well-defined generation, those who did benefit from the extra spending, that would be a way of answering the issue of how to convince governments, because then you would bring in user fees for current spending and use the extra taxation to reduce the deficit. It's not going to fly politically, I know that, but that's an economist's answer.

Mrs Haslam: Excuse me. How old are you?

Dr Vaillancourt: I would pay. I'm a university professor and I've argued in the past that our salaries should be cut by 10%. My colleagues don't like me. We

obviously benefit from extremely good employment conditions. We don't get fired when the recession comes in. Actually, one could easily think that the salaries of even both civil servants and their political masters should be inversely indexed to the unemployment rate: As it goes up, the salary goes down.

Mr Kimble Sutherland (Oxford): Mr Vaillancourt, we appreciate you coming forward, because we know you've written quite extensively and commented quite extensively on the underground economy.

I want to come back to the point you made that you did not feel the underground economy is as severe as some of the estimates, the high end of the estimates, the 7% to 20%. If I understood you correctly, what you're suggesting should be done, which I guess no studies have done, is to take those portions of the economy where we know studies have been done and we know they're very high, such as alcohol, tobacco—we had a report about the jewellery industry and some others—see what the proportion is in them and then put that into how much of the overall economy do those high-level factors, where there's a high level of underground economy, make up. Is that what you're suggesting as a way of getting a handle on this?

Dr Vaillancourt: Yes, exactly. That's one way of trying to get a handle on this. My impression is that if you look at these studies on the cash dimension of the underground economy, they're always carried out under the assumption that money in the underground economy circulates as fast as money in the aboveground economy. That's one of the two key issues. The other one is having a base year where there was no underground economy. That's always struck me as unlikely to happen. One way would be to actually go and survey people in the underground economy and ask them how long they retain cash in their hands and compare that to those in the aboveground economy. That would be one way of putting down the numbers.

The other one is to try to make some reasonable estimates. For example, one hears that in the construction industry half the work is done in the underground economy, one third to one half. Those are the numbers we hear in Quebec and Ontario. Nobody claims it's 100% but, say, one half. That gives you an upper bound for that sector. Nobody argues that municipal services are underground economy. That gives you an upper bound of zero for that sector. Just add up these various sectors. That gives you some idea as to what is going on. You'll again have margins of error.

I mentioned in the notes the survey by Mr Frechette that was done in Quebec City a few years ago. It has not been repeated, unfortunately, but he was led to find that the legal underground economy—not the illegal one; that's a difficult issue—was not that high. I've talked with him since I made my comments in Montreal in October and he said, "Yes, I buy your 7% or 8%." That makes sense probably, in his opinion also. But the 20% strikes us; I mean, \$1 out of \$5 is extremely high.

Mr Sutherland: You talked about asking for the extra information regarding who looks after your children type of thing while you're at work as one way of getting more

information. Did you have any other suggestions? Because we did have some suggestions from a few other presenters that we don't ask enough information to be able to match tax files or we don't utilize what information is available either through Statscan and the federal and provincial income taxes and do the comparing.

Dr Vaillancourt: In *La Presse* of about two weeks ago there was an article on somebody who was being paid cash as a plumber, a typical example always. Poor plumbers. His point was, "I have so much cash I must have five bank accounts." My reaction was, "If you must have five bank accounts and you keep hiding these things, obviously there's very little information collected to try to match the bank accounts together." It's easy to do that. Does somebody report your opening a bank account?

Again, in the US they have regulations on large cash transactions. I believe it's above \$10,000 in the US. I may be wrong, but it's a large cash transaction requirement. This is for crime. But clearly in the underground economy, till a few years ago, implicit interest paid on treasury bills was not reported. There was no way of finding out what was going on. There was no requirement of brokers to send the information to Revenue Canada.

I think we're very hesitant. We had a presentation on Friday by a Canadian economist of Swedish origin who works on Sweden, Åke Bloomquist from the University of Western Ontario. He argued that one reason why the underground economy in Sweden was relatively small, given how high the tax rates were there—because what was found was it wasn't that high compared to, say, Italy, which had a lower tax rate and a much higher underground economy—was that the Swedes were, in some sense, more law-abiding citizens. I call them Lutherans. That means they're maybe more law-abiding, I guess, than southern Catholics or something.

But it raises a touchy issue, which is that in so far as you have a fair amount of immigration in Canada, you have people who come from jurisdictions where governments were not to be trusted, and rightfully so, and come into a jurisdiction providing a lot of services. I'll take India, because the example I took on Friday was India. I know the Indian tax system a bit and I've heard of many ways of evading it. When I was in India in March everybody asked me—it was very interesting—about the size of the underground economy in Canada. It was very small compared to theirs. That was an interesting dimension.

People will know of various tricks. If we don't adjust our income tax system, if we assume we have the same knowledge of tax evasion that was there 20 years ago—people have come from cultures where they have learned different technologies to evade taxes; it's not a question of wantonly being evil; it's simply that you know how to do these things and you use them to your benefit—then your tax system is going to stay behind. It's probably an argument for employment equity and diversity in the ministry of revenue, I suspect.

1110

The Chair: Mr Wiseman, you have about a minute and a half.

Mr Wiseman: One quick question: You said that you would support professors taking a 10% cut in pay. Why wouldn't you take it from the other angle and support a 10% increase in the number of students and in the amount of time you teach so that revenue could come to the university?

Dr Vaillancourt: If we use an increase in fees, I suspect you'll have a small diminution in the number of students. There's some uncertainty. In theory, you could argue you're going to borrow it and it won't matter. But people are uncertain to take on long-term obligations, and if you did that, it would reduce the number of students.

We do not have many entry restrictions in Quebec right now. I don't know about Ontario, but in Quebec the number of students who show up at university, in my program anyway, all of them are admitted. That's not the issue, as far as I can tell. It's really an issue of structural costs more than the increase in revenue. There are also issues of formula funding. In Quebec universities, the last brings in 25% of the first students. It doesn't actually cover even the cost of an extra student, so you may end up reducing the quality for everybody, including those who come in.

It's a very complex issue. That's why I look at salaries and I say to myself, "Look, people are always underpaid compared to others," but in practice one has to be honest and say we're lucky in the public and quasi-public sectors, and the Quebec government is entering negotiations with unions right now to try to get some kind of—the dreaded words—social contract. We call them Johnson days over there.

Mr Phillips: I appreciate your thoughts. I'm trying to come to grips with the size of the issue, which is kind of our first objective. I appreciate your feeling that, "Let's try and look at this as objectively and as analytically as we can." I judgementally kind of think you're probably on the right track in that 5% to 10% range, but my question is just—maybe you answered it earlier—can you give us any help in terms of the sectors that you've analysed and kind of give us a little bit of a template that we might use in our report?

Dr Vaillancourt: I've looked at the overall issue of the underground economy using a monetary aggregates approach, but when I talk about the sectors—I sat down at one point and said in my mind, what is important? You go to a list of sectors from agriculture to public administration and try to say: "Could there be cash transactions in those sectors? How important are they likely to be? What are the purchasing agreements?"

One says agriculture, for example. The answer is that of course there could be lots of farm gate transactions, but then you look around and you see what happens as a matter of fact. The wheat is sold by the Canadian Wheat Board. Pigs are often bought in vertically integrated feeding organizations. Beef is sold on the open market. Chicken is a marketing system, so are eggs, so is milk. If you take out all of these numbers, okay, what's left? Maybe apples, peaches, if you sell them in Ontario, maybe some grapes.

You can start by the overall size of the agricultural

sector. Say it's x billions of dollars. Take out the part that you know is sold legally, because they also have regulations. I mean, there's no underground market in milk.

Mr Phillips: I don't mean to interrupt, but I know that. It would be useful for us if you had the notes that you used—

Dr Vaillancourt: No, I haven't done it in that detail. I'm saying how I would do it. If you're offering me a consulting contract either at above- or below-ground rates—if the OPP is in the room, we'll negotiate an above rate.

Mrs Haslam: Mr Phillips, ask him if he'll take it in green dollars.

Mr Phillips: Yes, that's right.

Dr Vaillancourt: No, I'm sorry, I'd like to have cash that I can use all over the place. I listen to green dollars; I still don't quite understand how they work.

Mr Phillips: Listen, I agree with what your recommendation is. We may have to ask our overworked staff to kind of just try that.

Dr Vaillancourt: I would seriously say I'm sure people at treasury could go through the exercise. They're very knowledgeable about that and give you, at least in some sense, a benchmark as to what are the sectors to concentrate upon after you've done the exercise.

Mr Phillips: That's a worthwhile suggestion, I think, if we're listening—Mr Spiro's there—because I do think then you can start to say: "Listen, we know that in these sectors it's very small. Let's be sensible about it."

We're almost out of time. Using information from matched data, which is Mr Sutherland's point, it's odd in some respects that, as we've entered the information era, the more information we have, the more we can't seem to see things in some respects.

I follow up on the point that Mr Sutherland made. If you stretch your imagination, are there other sources of data which we should be trying to access to try to get at this? The reason I raise it is that we had one other witness who said that once something was reported to Revenue Canada, the revenue from that source went up dramatically, even though it was simply reported without an awful lot of scrutiny. Have you any other data files?

Dr Vaillancourt: No. I think matching should be done as much as possible where things are not easily mobile. One example is property tax records. You have individuals who have an address for income tax purposes, an address for property tax records, and you find out that the amount of income they earn is almost insufficient to pay the local taxes, according to their income tax files. You've really tried to match in that case something which is not easily fudged—it is feasible, but not that easily done—with something which is more easily fudged.

You can start asking questions: "If over three years you've actually changed houses and reduced your income and gone on to a higher-priced house, how come this happened?" This is the kind of idea I have in mind, that you should try to match information. If in the past you had some investment income—I did my mother-in-law's income tax return and one year she forgot to give me a

T5 slip for the savings bonds. I didn't catch it so I sent it in, and afterwards we amended the return. Nobody caught it. She had a drop of 50% in her investment income. You would have thought there'd be some flags in the system catching those kinds of strange variations. None. She actually turned herself in and paid the extra tax when I discovered it.

This is the kind of thing you can actually try to improve at a reasonably low cost and catch nowadays: construction workers' variations in income, for example.

The Chair: Thank you very much, Mr Vaillancourt, for coming to Queen's Park to make your presentation.

Dr Vaillancourt: Thank you very much for having me.

ONTARIO PROVINCIAL POLICE

The Chair: Our next presenters this morning are Detective Superintendent Wayne C. Frechette, director of criminal investigation branch, the Ontario Provincial Police, and Detective Inspector Chris Lewis, criminal investigation branch, the Ontario Provincial Police and OPP representative, regional task force on smuggling and criminal activity. Welcome to the standing committee on finance and economic affairs. Please come forward and make yourselves comfortable, and if you would, please identify yourselves for the committee members and for purposes of Hansard.

I'd also like to tell you that should you need to stand up and make any comments while the overhead projector is going, there's a small lapel or tie mike right there on the table that you can use so we don't miss a word.

Mr Wayne Frechette: Good morning. My name is Wayne Frechette. This is my colleague, Chris Lewis.

Mr Chris Lewis: Good morning.

Mr Frechette: I won't be standing if I can help it this morning. I'm also not squirming in discomfort at your questions, or at least I don't imagine I will be. I've got a bit of a disc problem, so if I look a little uncomfortable, it wasn't anything you said.

The Chair: Please make yourself as comfortable as possible, then.

Mr Frechette: Perhaps I'll put this overhead on right now.

The Chair: Okay. While the presentation is being made, perhaps members of the committee who can't observe the screen would like to move to another place. Please proceed.

Mr Frechette: Good morning, ladies and gentlemen. Thank you for inviting us here to this forum this morning. Before I begin, just by way of introduction, I suppose, it goes without saying that we will try to answer any questions you have as fully as we can. If that sounds like a bit of a disclaimer, it is. We have ongoing investigations that are going on as we speak, so within that context, obviously we don't wish to compromise an investigation, and perhaps even more importantly, we don't wish to put officers in any more danger than they're already in. So from time to time there may be a question or a portion of a question that we simply can't address, and I'll certainly make that plain to you.

I won't read to you from the presentation. I guess what I'll do is simply paraphrase it.

As the overhead suggests, probably the fundamental problem from a law enforcement perspective here is the jurisdictional issue. The red area on the map is the province of Ontario, the blue is the state of New York and the gold or yellow is the province of Quebec. Therein lies a large part of the problem.

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We are presently involved in a joint forces anti-smuggling initiative in the area, and one of the first jurisdictional situations we're trying to overcome right now is to get our people, the OPP officers involved, acting RCMP special constable status, because the fact of the matter is that on any given day or night, we will have an OPP officer riding in an RCMP vehicle with an RCMP officer, or vice versa. At any given time it's very difficult to say, when you're on the ground there, whether you're in Ontario or Quebec, or for that matter very often whether you're in the United States. We are going to find ourselves certainly in Quebec from time to time, and probably in a position where we're going to have to take enforcement action, so to keep this all within the bounds of legality, we're attempting to come to some sort of agreement with the federal Solicitor General or minister of public safety to get our people some sort of legal standing.

This all revolves around the Akwesasne Reserve and the nearby city of Cornwall. The Cornwall police, who are a partner in this initiative, have no actual jurisdiction in respect to Akwesasne, but a good deal of the smuggling activity and the associated violence tends to spill over into their jurisdiction. What happens here essentially is that Canadian cigarette manufacturers export large quantities of their product to the United States. I'm not a tax expert, but I understand there is little, if any, tax on those exports. The distributors, for argument's sake in Buffalo, then are in a position to sell these cigarettes to virtually anyone. Again, my understanding is that if you sell in the United States to a native person, for example, there is no tax.

What happens at that point is that the cigarettes that began here in Canada find their way back into Canada at a price that's approximately half of the going rate. I'm not a smoker and I have very little interest in becoming one, but I can certainly see that if I were, this would have certain attractions for me.

We're estimating—and it is only that, an estimate, based on intelligence sources primarily—that about 50,000 cartons of cigarettes cross the St Lawrence River into Canada, the bulk of them in the Cornwall area, every day. These cigarettes are sold to consumers illegally through neighbourhood corner stores, the mom-and-pop sort of corner stores, bars, restaurants and such places as university campuses, out of the backs of station wagons and hatchback Honda Civics and this kind of thing. So it's a very widespread distribution network when it gets down to the consumer level.

About 10% of the tobacco products smuggled into the country are in fact American tobacco products, American cigarettes. I guess that may be a commentary on Ameri-

can cigarettes; I don't know. We also are aware of a cigarette manufacturing plant on the Akwesasne Reserve on the American side, so it's a fairly big business.

There is a school of thought that if we were somehow able to rationalize the tax structure, ie, if Canadian taxes were lowered and US taxes were raised, thereby reducing the profit margin in cigarette smuggling, this problem would go away. I have some difficulty with that in that in my experience, cigarettes are basically the commodity of the day. They are smuggled because they're relatively easy to transport and there's big money in it. If the profit margin were substantially reduced, you may eliminate some of the fringe players, some of the part-timers, but my belief is that the hard-core smugglers will simply go to a commodity in which there is a profit: cocaine, weapons, alcohol. I say that because in different operations that we have conducted in the area, we have bought cocaine, we have bought weapons, we have bought alcohol. So if you have a network in place and the profit goes out of one commodity, it's not a leap in logic to believe that you will go on to the next commodity, particularly when you're already involved in it to some degree.

Probably, as I said earlier, the big attraction with cigarettes from the smugglers' perspective is that they're very easy to carry and there's a tremendous profit in them.

Liquor: Chris can probably get into this in greater detail. He is the commanding officer of the OPP component of this task force. Liquor, as you might expect, is becoming more and more of an issue, particularly with Christmas approaching. I don't know what a 60-ounce of rum is: \$40 or thereabouts. In any event, from the smugglers, you're getting it for half or less. The only downside from a smuggler's perspective with liquor is it's harder to lug around. A boatload of liquor of course is a lot more labour-intensive than a boatload of cigarettes.

Mr Lewis: We have noticed a big increase in the amount of liquor seized recently. Our feeling is that Christmas is approaching and the liquor orders are going up. Traditionally in the Cornwall area, approximately 10% of all the contraband seizures have been liquor, month after month. Recently, that's changing. The figures are becoming a little more high in the liquor area.

In the last five weeks, we've seized approximately 5,000 60-ounce bottles of liquor in that Cornwall area, approximately 30,000 cartons of cigarettes and about 5,000 tins of tobacco, for a grand total of about \$1.7 million in contraband. We've seized about 30,000 cartons of cigarettes in a month, a little better, and when you look at the estimates that 50,000 cartons a day are coming over the river, we haven't even got a full day's worth in five weeks, with numerous officers working around the clock. So it's a very, very big problem and we're barely touching the tip of the iceberg at this point.

Mr Frechette: One thing we should emphasize is that clearly there are residents, natives on the Akwesasne reserve, very much involved in smuggling, but it's not exclusive to them. We are aware of various components of organized crime involved in this, as well as just the

average guy who has a boat and is out to make a buck. So it's certainly an issue with respect to the reserve, but they aren't the only people involved in the smuggling industry.

The Chair: Does that conclude your presentation?

Mr Frechette: That's been sort of a fast trip through the smuggling industry in Akwesasne, but if we can answer any of your questions, we'll certainly try to.

Mr Lewis: There's more information in the handout that we've provided than we've actually gone over in the short period of time.

The Chair: Okay. We have about 10 minutes per caucus for questions. We'll start with Mrs Haslam and then Mr Lessard.

Mrs Haslam: I've always raised a concern about the networks already being in place and therefore going on to other products or going on to other illegal activities, and you're saying that is the case with the networks already being set up?

Mr Frechette: That is the case now. Prior to the hostilities or whatever you should call them revolving around Oka, for about 12 months prior to that, we had been involved in an undercover operation in and around Cornwall and Akwesasne targeted on cocaine trafficking, both on the reserve and off. Obviously, we bought pretty respectable quantities of cocaine, kilo quantities. At that level, you're not dealing with street-level traffickers. These are major drug entrepreneurs.

We were also buying weapons, fairly respectable weapons such as a mini-Ruger, which is a semi-automatic rifle that we happen to be armed with, the OPP's shoulder weapon of choice. We bought an Uzi, which is an Israeli-made submachine gun, along with the AK-47, which we also purchased. Probably if you're a gun nut, those are the crème de la crème in automatic weapons. We weren't targeted on weapons. They were, for the most part, almost throw-ins to larger drug deals, but if you're posing as any criminal with a little self-respect, you will certainly buy these kinds of things, and that's what we were posing as at the time.

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Mrs Haslam: I'd like to go more into the arrest idea. When you talk about eventually these cigarettes being sold to consumers illegally at corner stores, bars, restaurants etc, and on page 5 you talk about, "To date, approximately 50 persons have been charged with related offences," what about stepping up the fines and the arrests at those local areas? For instance, in the new tobacco legislation coming in, they will be charged; they will have the opportunity of losing their licence for selling to minors. So being very proactive in being sure that we go to those areas and find out and find them.

Fifty doesn't seem like a lot. Are you only stressing and right now working at some of the larger networks, or should we be looking at a more local solution: the more local corner stores, bars, restaurants, the man down on Yonge Street with the gym bag? Should we be looking a little harder at more fines and more arrests to be sure, at the bottom level, it's being taken care of?

Mr Frechette: Perhaps Chris can deal with the 50-

odd arrests that have been made down there, because they're his people who made them, and I'll get back to the second part of your question.

Mr Lewis: The 50-odd arrests aren't a province-wide thing. Those are just the arrests that have been made in the Cornwall area since this task force was formed a little over a month ago.

It's a very large enforcement problem, what you're speaking of. The Ministry of Finance has tobacco tax investigators who do that sort of investigation, try to find stores and restaurants or whatever that are illegally selling cigarettes. But with the number of enforcement officers involved at their level, at our level, and the volume of stores, bars and backs of cars that are all over this province, it's virtually a very lopsided situation.

Mrs Haslam: Could I ask just a quick question before he gets on to my second one? Do you have a Crime Stoppers in the Cornwall area?

Mr Lewis: Yes.

Mrs Haslam: What percentage does that help?

Mr Lewis: Percentagewise, I can't give you a figure. It certainly does help. We do get a lot of calls from the public directly to us and through Crime Stoppers. We talk to Crime Stoppers on almost a daily basis.

Mrs Haslam: They would be, to my thinking, on a local level: "A corner store down by me is selling cigarettes and there's no duty paid on them."

Mr Lewis: Yes, we do get those kinds of tips. We have to prioritize the tips we do get and act accordingly. We have so many officers, so much time, so we're obviously shooting for the moon in that we're looking for some of the bigger players here. If there were more than 24 hours in a day and we had more people than we do, we would slowly start working down and getting smaller and smaller. But we will lay charges in any situation we come across, regardless of the volume.

Mrs Haslam: I was thinking more along the line of my town, and I won't take up all my colleagues' time, where there are street patrols and there are beat cops and there are people who know the community. Is there no way to be sure that they are more aware of what's going on and being more proactive in getting into that corner store in one way or another and nipping it there? I understand what you're saying. If you're low on manpower, then you're going to go for the arrest that nabs a truckful, not one package of cigarettes. I understand that. I'm just wondering if there was something at a more local level that could be put into place.

Mr Lewis: It is in place. It's just that it's not very effective at this point. Police officers in general in any community have a lot of work to do for the amount of time they have. Obviously, if they're going from call to call, to domestics, to armed robberies or whatever, they may not have the time to actually go and start checking corner stores. But I would say that the majority of police officers are aware of this problem and are looking into these things.

Mr Frechette: The second part of your question had to do with the new tobacco legislation. Again, I haven't read it in great detail, but it seems to me to be more

perhaps health-driven.

Mrs Haslam: Yes, it is, and young people, more along the lines of education. But there are provisions that look at the type of packaging, which again would help, because if there was more evidence of contraband or more evidence of cigarettes that come from the States with a larger warning or a larger stamp or some way—I mean, that little yellow ribbon on the cellophane is not an effective way of noticing what cigarettes come from the States and what don't.

Mr Frechette: I guess my only observation is that the smugglers and the people who are the market for the smugglers probably won't be deterred any more by larger print. I'm not being facetious. I don't mean to be the prophet of doom, but my observation on the legislation is that, yes, it will make cigarettes somewhat less accessible in the legal market. Generally, when that happens, you drive the price up in the illegal market, where accessibility at this point really isn't a problem. So that's one of the downsides of the legislation, because if they're less accessible to me legally, I'm more inclined to deal with my fellow who gets them wherever he gets them.

Mrs Haslam: That's what brings me back to my concern about 50 arrests when we know how prolific the selling of them is at a local level. That's exactly what I'm thinking about when I'm thinking about young people and the education aspects of it and the health aspects of it.

Thank you. I won't take up any more time.

Mr Wayne Lessard (Windsor-Walkerville): You mentioned in your remarks that 10% of the cigarettes that come into Canada are American, so that means that 90% of the cigarettes that come back into Canada are Canadian cigarettes. I know the previous federal government had suggested an export tax so that it would increase the costs to bring cigarettes back into Canada, and I'm hoping the new Liberal government may reinvestigate that.

I know you're not economists, and you've indicated that if you make one substance more expensive, then smugglers are going to switch to other means of making an income. However, I don't think there's the same widespread demand for cocaine and guns as there is for cigarettes. I'm wondering whether you would think an export tax might decrease the incidence of the smuggling back into Canada of Canadian cigarettes.

Mr Frechette: The short answer to your questions is yes. I think on this whole issue there is no one initiative or no one strategy that is going to make this problem go away. It's probably going to be a combination of health initiatives, education initiatives, enforcement initiatives and some major tinkering with the whole tax structure, perhaps all of those things done in concert. In fact, I'm reasonably confident that all of those things done in concert would give us some results, but no one of them is going to do it.

Mr Lessard: Is there any more time, Mr Chair?

The Chair: We have about two minutes, Mr Lessard.

Mr Lessard: I know Mr Jamison had a question.

Mr Norm Jamison (Norfolk): Basically you touched

on my question in the original sense. I know it's a sensitive area, but it's on the coordination that needs to happen considering the jurisdictions, various levels of government and so forth and police forces that are related to that particular issue. Certainly there needs to be a coordinated effort. For example, as OPP officers, you have very little ability to patrol borders in the smuggling sense without a federal mandate offered that way.

Mr Frechette: As I mentioned earlier, that's one of the reasons we want to get RCMP special constable status for our people, because then they will have enforcement powers under customs and excise. They will be able to take enforcement action in the province of Quebec. Really, at the enforcement level, the 50-odd people we have between the RCMP, OPP and Cornwall police down there are one generic police force by and large. My partner tonight, if I'm out on patrol, may well be an RCMP officer or a Cornwall officer. So I think we're on the way to doing business there. Obviously we have a problem with an international border, but we're in daily touch with the New York state police. In fact, we hope to have a common radio system with them in the next week or two such that we can talk to them.

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Mr Jamison: To me, the guns situation, the arms situation, is most frightening of all, knowing, as you've indicated, there are arms that would make it difficult, given confrontation developing there—that we're looking at a potential of a confrontation with these types of weapons available. It's certainly disconcerting for me. My obvious question is, how capable are police forces at this point of dealing with those types of armaments?

Mr Lewis: First of all, I guess, to answer your question, we're trying to avoid a confrontation at all costs. We don't want to get into battles on the water. We don't want to get into shoot-outs. We're trying to do this more strategically.

Our officers are armed and equipped and trained. Whether we're better armed is perhaps a question. We don't know exactly what everyone out there is carrying on the other side. We know what we have. We feel we're suitably armed and equipped to do our job properly. I am very concerned about the potential for violence and seeing some of our people get injured over this.

Mr Frechette: The potential is there with every arrest, with every interaction.

Mr Jamison: Thank you.

Mr Monte Kwinter (Wilson Heights): Mr Frechette, in your statement you sort of imply that a change of taxes isn't going to solve the problem entirely. You also stated that there's about, what is it, 40,000 cartons coming in a day?

Mr Frechette: Fifty, give or take.

Mr Kwinter: Sorry: 50,000 cartons coming in a day, and you were able to get 40,000 over a five-week period. So you're getting less—

Mr Frechette: Thirty, actually.

Mr Kwinter: Thirty thousand. You're getting less than one day's smuggling capacity in that period of time. My question is, you've got all of these various compo-

nents and you say no one is going to solve the total problem, but you're involved with law enforcement. What proportion of the problem do you think can be addressed by law enforcement and, if you had unlimited resources, what would be the maximum results you would get just from the law enforcement component?

What I am trying to really determine is, if more resources were applied to the problem on the enforcement side, would the results be quite dramatic as opposed to the other components that you're talking about?

Mr Frechette: Clearly, if you put a police officer every three feet—

Interjections.

Mr Frechette: I'm not being facetious, but clearly that would have a dramatic impact.

Mr Kwinter: No, I'm just saying there's got to be an optimum size.

Mr Frechette: Chris may want to jump in here at this point, but I think right now that if we had 50 more people, if we doubled the number of people, for example, or tripled it, that too brings a number of problems as to storage of exhibits and all this kind of thing. So to say what percentage of the problem can be dealt with by law enforcement, I'm really at a loss to quantify that. I would say a large component of this whole problem is a problem for law enforcement, half of it possibly, but that half has to be done in concert with other initiatives. We can't do it ourselves.

Mr Lewis: Mr Kwinter, with regard to the tax issue on the cigarettes and the fact that if taxes were raised, cigarette smuggling would go down and other things may go up, I think it would be a successful thing if taxes were raised. Cigarette smuggling would go down. It would eliminate a lot of the people who are becoming criminals who never would be otherwise, the people who are looking at hauling perhaps two cases of cigarettes a day and making a quick \$1,000 to supplement their mortgage or to help finance their business or whatever.

If they couldn't do that, they probably wouldn't be involved in criminal enterprise. They'd go back to just trying to make ends meet the way everyone else is, I suppose. The traditional crime groups that are normally dealing drugs and are now moving into cigarettes would have to go back to drugs, I suppose. Smuggling would continue, but I think by eliminating the tobacco smuggling, certainly there would be a lot less people involved in this illegal trade. That's my feeling.

Mr Phillips: This is very interesting testimony. What I take from this is that this is like a \$1-million-a-night after-tax profit in the Cornwall area. This is like several times bigger than General Motors. This is the biggest profit industry in Ontario and, as I say, it's all after-tax profit. It's \$1 million a night, every night, just in Cornwall.

My question is this: Have we allocated the resources to try to manage this size of an industry? One of the things this committee should be looking at is trying to say, "Listen, when you're talking about trying to manage this size of a \$1-million after-tax profit a night, have we got enough resources behind this issue?"

Mr Frechette: Again, a short answer would be no. In an ideal world, we would have considerably more resources applied to this than we have now. To use your term, at the moment it's like a mouse trying to manage an elephant. But I think within the parameters of our overall resources, we've put a fairly significant presence in the Cornwall area. At one time random seizures, which have been going on for some time, were looked upon by the smugglers as basically similar to a business tax, as just one of the irritations of doing business; every now and then the police will seize one of your shipments. Our intelligence information that we're getting now indicates that we're becoming considerably more than just a minor irritant.

Mr Lewis: Given the present laws, we have to have certain grounds to seize these things. We're seeing things there that we just can't act upon because the grounds don't exist, and that's just the reality of law. If we could stop every vehicle, open every trunk and if Customs could block the bridge off totally and not let anyone through until they emptied everything in their possession, we could virtually shut it down. We could turn the area into a police state, I suppose. Obviously nobody wants that, so we're trying to do our best with the authorities we have. I think if we doubled our resources, we would probably be up to 60,000 cartons rather than 30,000, and it would be just a little over a day's worth of contraband seized. Given the present laws and authorities we have, we're not doing too badly, but certainly we're only touching the tip of the iceberg.

The related violence was a big concern, the shootouts on the rivers and what not that were going on. Since our presence there, that has gone down considerably. There's not as many reports of random shooting. We've accomplished something in that regard. Getting more contraband is something we'll work on more strategically, and those figures will increase over time as well.

Mr Phillips: My judgement is that one of the challenges we face is that, in terms of public perception about buying an illegal pack of cigarettes, if you were to go to somebody on the street and say, "Hey, I've got some money I just stole from a bank," nobody would take it, but it seems to me there is—at least I'll ask you the question. On sort of the hierarchy of socially acceptable illegal activities by the individual, is this a significant problem, that people don't view it as much of an offence at all to be buying illegal cigarettes? Have we got a problem there, that in the end the consumer doesn't feel much compunction about participating in this activity?

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Mr Frechette: I think that is evidenced right from the—and I believe it was on The 5th Estate recently, where one of the residents of Akwesasne said words to the effect that if you're coming on to the reserve to deal with cocaine traffickers you have their full support, but don't mess with the cigarette industry. So clearly people see a difference between cocaine abuse and cigarette smoking, and I would hope they would.

To answer your question, to go to your neighbourhood watering place for a drink in the evening, people are buying smuggled cigarettes from the same fellow they

buy their Nevada tickets from. It's really not seen as a heinous crime, I agree. That probably is more a function of education. At one time—I look back a number of years—impaired driving wasn't seen in the same light of urgency and viewed with the same distaste as it is today. It may be that with education and so on, cigarette smuggling may be seen with considerably more distaste than it presently is, hopefully.

Mr W. Donald Cousens (Markham): Three questions: The first has to do with the image I have of someone driving from Akwesasne in their four-wheeler with a couple of cars with them as they drive into Cornwall or some neighbouring community with a deposit to make following a busy night. They'd walk in and they'd have with them something in the order of \$150,000 in cash or some number. It would be in small denominations; therefore, no cheques. It's a good transaction they've got, and what they've done is deposit that day after day. After a while that bank account becomes huge and becomes something that leads to other things, to me very serious things. This is more than a symptom when you have such huge amounts of cash being generated. It also leads to tremendous power that these people will have because of the way this money can then be moved around.

I'd like to ask, to what extent are you following the money at banks or registered deposit centres and is there forensic analysis being made of that? This may lead to questions you can't answer. I have to say there are other steps that go far beyond the immediate kind of task forces that you've described into some other larger areas as to tracing the money.

Mr Lewis: I guess the short answer on that is that we are looking at those things. Certainly there is a federal law in relation to proceeds of crime. Excise offences are contained within that legislation. Those are things we are looking at. Other than that, there is not a lot I can say in those regards.

Mr Cousens: I can understand that, but I can just tell you that from where I sit I see that as one way where you can start pointing. If different groups within the police forces start to assess where this money is flowing, you're going to be able to reverse the flow and see where it's coming from. It certainly could lead to something interesting.

Mr Lewis: Certainly we are looking at it. There is a problem in that we're right on the border with the United States and not all the money comes into Canadian banks, but we're working on those areas.

Mr Cousens: I won't explore that further, because I'm aware of just how much money is going into some of the banks on certain occasions. A \$150,000 deposit isn't out of the way with some of these people. That just has to flag a whole set of problems.

The second one: I'm really concerned about the area in which we've got maybe five different police forces. You take the three jurisdictions—Quebec, Ontario, US and then federal and provincial or state—and that we have till this date still not worked out a very comprehensive arrangement plan to make sure that everybody's working together. Is there a sense of a time line when you can

hope to have every level somehow in sync?

Mr Lewis: We are working together; there's no doubt. We have only four agencies that are under the roof with us. However, Quebec Provincial Police and New York State Police and all the related agencies—US Customs, US Border Patrol, Alcohol, Tobacco and Firearms on the US side—we are working together. We don't go out and ride around together every day, but there are certainly investigative strategies and communications that are ongoing. To say we're not in sync really wouldn't be entirely correct. We're not all under the same roof, but we're working towards a common goal, and we talk daily.

Mr Cousens: I don't want to challenge you on that. The sense I have is that there is still not total harmony in all the police forces. The question I asked earlier with regard to deposits in US banks—if you had the FBI and other federal jurisdictions in the US involved, that doesn't become as much, say, "Hey, it's their problem or their habit." To me, I think it should be escalated to the highest levels of politics in Canada among state and federal jurisdictions to see that there isn't any sense of a boundary separator between those jurisdictions. You're saying you're working well; to me it's self-evident that it could still go better.

Mr Lewis: We're relatively new at this game. We've only been at it for just over a month, and I think we've come a long way in that time period. There are boundaries that exist in terms of law that certainly can't be dealt with at my level. Whether money sitting in a US bank solely made from crime in Canada is forfeitable is a thing that has to be looked at within the Department of Justice, by US legal people, and that's being addressed as well. We may never get satisfaction in those regards, but we're certainly working towards that.

Mr Frechette: I think you may have answered in some respects your own question there when you said it will take some sort of political initiatives to essentially erase the boundaries and so on. At the enforcement level, yes, I wish there weren't these boundaries there. There are occasions I wish there weren't certain provisions of the charter, I guess, so that we could do certain things. But the fact is these boundaries are there and ours is not to reason why. That will have to be dealt with at a higher level than us.

Mr Cousens: I have one final quick question, and it has to do with something that Noble Villeneuve, our member from Stormont, Dundas and Glengarry, has mentioned about the violence on the St Lawrence now, which is again another one of the outcomes from this openness. The underground economy is now aboveground. But when you have boats on the St Lawrence Seaway refusing to go under the bridges along through there for fear of being shot at at night, so that they're piling up at either end and then they're doing the run during the daytime, and then when you have people in boats out there saying, "Just stay off; you're taking a chance in going," to what extent is there reason for public alarm about this or to what extent is that a problem that's starting to diminish? Maybe with wintertime it'll diminish, but you have snowmobiles at that point.

Mr Frechette: It's diminished somewhat simply by our increased presence. But as far as being alarmed is concerned, as a member of the public I'm alarmed any time I hear weapons being fired. Clearly the problem is still there.

We are reluctant to become involved in essentially naval battles on the St Lawrence River. Quite frankly, I'd hate to see anyone shot over a carton of cigarettes, but—

Mr Cousens: But people have been—that's the problem—innocent victims.

Mr Frechette: True. Well, I'm not so sure all of them were innocent victims. They may have been players in the trade but, again, they don't deserve to be shot for that. But the strategies we are undertaking are designed to make an impact on the smuggling business and to minimize the possibility of armed confrontation. Now, you never eliminate that possibility, and from time to time I guess those are the chances we take, but given the number of people involved and the level of armament we believe they have, we certainly want to minimize it, much as we would want to minimize a confrontation with armed holdup men.

Mr Cousens: Are the boats still stopping at night along the St Lawrence? Are they having free traffic going up and down the St Lawrence?

Mr Frechette: Do you mean the lakers, commercial traders?

Mr Cousens: The lakers, yes.

Mr Frechette: I wasn't aware they were stopping.

Mr Lewis: They're continuing on. They're going back and forth all the time.

Mr Cousens: And they're travelling at night now?

Mr Lewis: Yes.

Mr Cousens: Because they weren't for a while.

Mr Lewis: I think there were a couple of incidents some months back and there was some concern, very valid concern. I think that's diminished greatly. We don't hear the gunfire 24 hours a day that we did hear, although we've had some recently. We're doing our best, but we're certainly not entirely stopping it.

The Chair: Detective Superintendent Frechette and Detective Inspector Lewis, I want to thank you both very much for making a presentation before the committee today.

Mr Lewis: You're welcome. Thank you.

Mr Phillips: Good luck.

Mr Cousens: We'll stay in Toronto.

The Chair: Just before this committee recesses, I would like to ask members of the subcommittee if we could meet here maybe 10 minutes prior to 3:30, providing that the routine proceedings in the House allow us to do that, so that we can discuss our business for the new year. Okay, this committee's recessed until 3:30.

The committee recessed from 1159 to 1547.

The Chair: The standing committee on finance and economic affairs will come to order.

Previously, it was agreed that we would have a subcommittee prior to our deliberations this afternoon,

but I think maybe we'll save that till the end of this afternoon, if we have time. I would like to suggest we should take time, if not to come to some conclusion as to what we will do earlier in the new year, at least to make arrangements so that we can meet at another time.

ASSOCIATION OF CANADIAN DISTILLERS

The Chair: Our first presenter this afternoon is Ronald Veilleux, president of the Association of Canadian Distillers. Welcome to the committee. When you're comfortable and ready, please proceed with your presentation.

Mr Ronald Veilleux: I'm ready, Mr Chairman. Thank you very much, Mr Chairman and members of the Legislature. I have a very short presentation, about 15 minutes, and I hope that will leave plenty of time to clarify some of the statements I will be making this afternoon. Again, thank you very much for inviting me.

This system is not totally what I was expecting. You have a copy of the presentation in front of you. As I flip through the slides quickly, you may want to note your questions and comments and we'll come back afterwards.

First of all, I would like to give you a bit of background on our industry, its economic impact in Ontario and in Canada, and also describe the smuggling problem that we are facing, why this problem exists, and then propose a solution.

First of all, the member companies of the association: We represent all of the major distillers in this country, and the important piece here is that in Ontario we represent 9,000 people. So at stake are 9,000 highly paid, unionized jobs. That's what we are talking about today.

What is our economic impact in the province? Even with the severe decline of legal sales of spirits in this province, our industry still has a direct or total economic impact of \$800 million. This does not include exports. This industry exports over half a billion dollars of Canadian whisky around the world. Of that amount, 65% is exported out of Ontario, so it's a significant economic impact. On the right side, you have all the various areas where this economic impact can be felt: agriculture, obviously very significant, raw materials, bottling, packaging and taxes. We'll be talking a bit more about taxes later on.

Just to give you a bit of an overview of the size of our industry, as far as net provincial revenue, this province collects a net revenue of \$1.4 billion from beverage alcohol sales. The pie in there breaks it down between spirits, beer and wine. As you can see, spirits contribute almost 46% of the revenue of the Liquor Control Board of Ontario or revenue from the sale of beverage alcohol in this province.

What has been occurring to consumption of beverage alcohol and more specifically of spirits in the last decade? The actual decline in consumption of spirits in Ontario almost parallels Canada and the United States. All the surveys that have been done by ourselves, our members and other organizations over the last 20 years indicate that lifestyle, health concerns and aging population clearly demonstrate that this decline has gone by about a rate of 20%. So in the last decade, people consumed on

average 20% less spirits.

If this is true, why is it then that the legal sales, these are the sales by your liquor board, have gone down to the extent you see on this transparency? The decline today is 46% over the same 10 years, the same period of time. So people are telling us that they're consuming 20% less, but at the same time the legal sales have gone down by 46%. Where is it going? Where is the difference? I think you know that answer and I know that answer. It's the black market. I should point out in here that during the same period of time in Europe, the consumption patterns were pretty well level and slightly going up. Asia is the same way.

What is the size of the black market in Ontario? This transparency tries to put it together. In Canada, Canadians consume 17 million cases of spirits, legal and illegal. Four million of these cases are sold illegally. That is 48 million bottles of 750 millilitres of alcohol. So 13 million cases are sold legally, four million are sold illegally. This is a tax loss of \$1 billion, and this is extremely, and I would like to underline that, conservative.

The reason I am saying this is because Mr Brandt, who was here a week ago, told you that in Ontario you are losing about \$800 million. In Quebec, they tell me they are losing between \$300 million and \$500 million. So if I only add those two, I'm away above the \$1 billion. You know how easy it is to smuggle into Newfoundland. It's a big island and it's a big coast. It's impossible to stop; the same with British Columbia, the same with most provinces.

In Ontario alone, seven million cases, legal and illegal, are sold annually. As the liquor control board told you, two million cases are sold illegally and five million legally. This is an impact of half a billion dollars in taxes, but there's also an impact because there is illegal production in this province. So overall, the loss is between \$750 million and \$800 million. Mr Brandt quoted \$800 million. If you want my honest view, it's extremely conservative; very conservative. Every liquor board in this country almost weekly is reassessing its losses, going up. It's not coming down.

Mr Sutherland: We're not surprised Mr Brandt's view was conservative.

Mrs Haslam: That's why we're laughing.

Mr Veilleux: Why is this occurring? Here's what we believe is occurring. It's unfair taxation in Canada, the significant price differential between Canada and the US, and the resulting effect is that citizens, as you know, are not willing to pay more and more taxes. If they can get away with less taxes, they'll take the easy route and pay less taxes. Therefore, it's increasing smuggling.

Here are the differential taxes between Canada and the US. In Canada in the price of one bottle of spirit on the shelf in the liquor board, 83% of it is taxes; 23% of this is federal and 60% is provincial. The industry takes 17%.

In the United States, governments take 42%, which is half of what we take in Canada, and therefore you can see why many Canadians take the opportunity to go and bring truckloads, thousands of gallons, across the border. Mind you, even more important, the people who are

taking truckloads across the border do not pay taxes in the US. They do it illegally and therefore the 42% is not very representative of the differential. Just as an example, the average price of a bottle in the US is \$9; in Canada, you pay \$19.

To better understand my solution that I would like to propose, I would like to put on a table which describes for you the pricing structure of beverage alcohol in Ontario. This slide tells you exactly what's occurring. We produce the material. We sell it to the liquor board, on average, for about \$3. From there on, taxes are added on taxes, on taxes, on taxes and the cascading effect is this result. You get 83% taxes and 13% is really our price.

The big important piece is the red line, the markup, and the markup is really a tax. The liquor board calls it a markup but it's a tax, and that tax is the piece I want to deal with, because unless we change that line and we lower that tax, I believe very sincerely that smuggling will continue to grow. Canadians and Ontarians will continue, in 95% to 97% of cases, to consume moderately, but they won't purchase it at the liquor board. They'll go and purchase it wherever they can find it and when they do that, they don't pay taxes and we all lose. So the \$9.06 is the piece that I want to address. By the way, this is not unique to Ontario. It's the same across Canada.

The next one is my solution. In Ontario today, the legal system sells about 4.7 million cases. Each case has 12 bottles, and if we decide to give a break to the consumer by lowering the markup by \$4, it's obvious that the province this year and next year will lose \$225 million, which is the number we've got there. The argument we are making is that by lowering the tax by \$4, you will bring back into the mainstream—because we believe that Ontarians are law-abiding citizens and would prefer to purchase something from the LCBO, meeting Canadian standards instead of purchasing something illegally and not being sure what is inside the bottle, with all the health implications.

If you bring back into the system the 2 million cases that are sold illegally, you're going to gain a significant amount because you're going to gain \$5 per bottle. That's an additional \$120 million coming into the coffers of the government. The difference is still a loss because you have reduced the markup significantly. The loss is the difference between the two, or \$105 million.

But if nothing is done, you've seen that the curve is going this way and it's going to continue to go this way. The first nine months of this year, in Ontario alone, the curve has gone down an extra 8% and it won't stop. If you take that into consideration, the projected loss for 1992-93 is an additional \$45 million to \$60 million. So if you do zero, if you just let it go, you lose another \$45 million to \$50 million.

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The difference again—there's a mistake on the slide and I apologize for it—is \$105 million minus \$45 million. You end up with a loss of \$59 million to \$60 million by taking this solution. You may wish to go all the way down to \$4; you may decide that, say, \$3.50 is fine and it's going to keep the bottom line intact; but what is most important is not this piece. We believe that

by doing this, here's what will occur: You will save an industry because, as I said, Ontarians will continue to consume in moderation. I'm sure if we took a secret poll around the table, you will all tell me that you may have one drink a week or one a day or whatever and you're not abusers and you will continue to do that.

By taking some drastic action in reducing the markup, what do we do? We reduce the incentive to smuggle so that the sales that are taking place outside the legal channel are coming back inside the legal channel. We almost achieve revenue neutrality because of this movement. The taxation playing field is levelled a bit more. As we see on these posters, they're all the same, so why is one tax twice as much as the other? It's all alcohol, and the Addiction Research Foundation will say that too. They should all be taxed the same. But most importantly, it's the bottom line there. You save an economic impact of \$800 million. That's what this industry does in Ontario, and this industry will be lost, because if the curve keeps going this way, why should we produce? We're not selling. You would do the same thing. This is not a threat. It's a reality that we have to face today.

We will save 9,000 very important jobs in Ontario and we can increase this number to approximately 12,000. Why? Because if the 3,000 jobs at the liquor stores in Ontario disappear, why should these stores remain open to sell beer or wine? You've got thousands of outlets out there already selling beer and wine. Therefore, you would also lose these other jobs. You're talking a significant amount of highly paid unionized jobs. You would save \$311 million in exports, and this number is growing, and you would save \$663 million in net revenue to the province. This is the portion of the \$1.4 billion tied to spirits.

In the end, by giving a break, you're not increasing consumption, you're keeping consumption flat—thousands of jobs and you are keeping in this province an economic impact, if you add it all, of a couple of billions of dollars.

Mr Chair, members of the Legislature, this is my presentation and I'm available to answer some questions.

The Chair: Thank you, Mr Veilleux. We have about seven minutes per caucus. We'll start with Mr Phillips.

Mr Phillips: Thank you for the presentation. I appreciate your proposal, and we'll talk a little bit about it, but I also wouldn't mind any other advice you have for us on how we can tackle this issue, because I think you've got one solution here and my suspicion is that's it's going to require many. But just so I understand these numbers, your proposal is that we reduce the taxes by \$4 a bottle. Is that right?

Mr Veilleux: That is right.

Mr Phillips: And the net impact of that, I gather, would be that the price per bottle would drop? Instead of \$19, it would become \$15?

Mr Veilleux: It would be less than that, because if you remove the \$4 at the level of the markup, because it is a cascading effect of a tax on a tax on a tax, it lowers it a bit more. The reason we've chosen that number of \$4 is because it will bring the price down to about \$12, and

that is competing with the price on the black market. The same bottle on the black market will sell between \$10 and \$12.

Mr Phillips: So the cascading, cascading, cascading might be more than \$4?

Mr Veilleux: That is right.

Mr Phillips: So when we look at the loss, we should be taking more than \$4?

Mr Veilleux: Yes, there will be a slightly higher loss. But what I wanted to portray here really is that if there's a sizeable loss, we can recuperate most of it to a major reduction, but if you make the reduction too small, it won't make enough of an impact to bring the illegal consumers back into the legal system.

Mr Phillips: We're always trying to get a handle on the size of the problem. Your belief is that right now in Ontario, of the seven million cases, two million cases are smuggled in from outside?

Mr Veilleux: Definitely smuggled in from the outside. As I said, I think this number of two million cases is very low. I would even guess that it's as high as three million cases because people do not smuggle it in bottles any more. They come across the border with 2,000-gallon tanker trucks, the big milk trucks, they fill them up, they unload them in a warehouse here in Toronto and they bottle them and put labels on them and put the normal seal on them, the Customs seals or whatever. All these things are done and our own experts have significant difficulty in identifying the legal versus the illegal.

Mr Phillips: Let me get this right: You're saying that somebody may be packaging Canadian Club in a Canadian Club bottle with a Canadian Club label and the Canadian Club—

Mr Veilleux: No. That's a good question. It's not Canadian goods shipped to the United States coming back; it's not like the cigarette issue. It's really US-produced spirits being illegally shipped to Canada.

Mr Phillips: So it would have a label on it that you would think it was made in the US; is that right?

Mr Veilleux: No, you've got a label on it that would make you think that it's made in Canada.

Mr Phillips: But would it be a—

Mr Veilleux: It could be a Canadian Club label but it's not Canadian Club in the bottle.

Mr Phillips: That's what I wanted. Of the 2 million cases, can you give us an indication of how many of them would be legitimate? I use Canadian Club, but whatever it is, Black Label, whatever it is.

Mr Lessard: A good example.

Mrs Haslam: He uses it often, as an example.

Mr Phillips: Actually, I'm a beer drinker, I hate to say. But what percentage is product that your manufacturers ship to the US and it's come back versus this, whatever you call this stuff?

Mr Veilleux: The percentage that we have been using up to now is about between 1% and 2%.

Mr Phillips: Between 1% and 2% of what?

Mr Veilleux: Of the total amount that is smuggled

into Canada. It is material that has been shipped from Canada to the United States and is coming back.

Mr Phillips: The rest is actually product that is sold as Canadian Club, Black Label, but is not that, is repackaged.

Mr Veilleux: Yes, or they are also products that are sold like brand X, brands that you've never seen in this country. But they are sold and people purchase them because they believe they are buying something good, or it is because people believe it is all the same thing but they really don't know what they're buying. Why I can say this is what we have done is we have gone through the blue box out on the street on certain days of the week in Ontario, and when you go through the blue box, it's amazing what you find in there. You find exactly these types of bottles and you find labels you've never seen before. These labels do not exist in our liquor board, so therefore they have to be something illegal that has been brought in. Also, we find our own labels and then some of them are not very good copies. People have been cheated into believing that they are buying Canadian Club, to use the example, but they're really not purchasing Canadian Club; they are getting something else.

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Mr Phillips: The reason for pursuing this—I've got another minute or two, have I?

The Chair: Mr Kwinter has suggested there's interest in asking a question, but you do have about four minutes left.

Mr Carr: You can take some of my time.

Mr Phillips: Okay. I may ask the question he might have asked, because he's asked it before, and that is, it would seem that this sort of activity, where somebody is buying bottles designed like Canadian Club from a bottle manufacturer and buying labels designed like—I shouldn't be using Canadian Club at all—whatever it is, would be traceable. I'm looking for other solutions to the problem besides the normal one of reducing taxation. One would think that a sleuth of some sort could find out very quickly where the bottle was made, go to them and say, "Excuse me," and we could begin to get at it with a little bit of that sort of activity.

Mr Veilleux: That is a part of the solution, but in our estimation it's not the solution which will resolve the problem. Extra policing will help. In this case, we had seizures in Ontario at the Windsor border. The crates clearly indicated auto parts. The crates were opened and we discovered exactly what you're talking about. The police forces went all the way back down the chain to the factory in some southern state and they discovered the press and they discovered the bottles and everything else, and obviously this operation was shut down. But there are so many of them and it's so lucrative that you shut one down and three will open across the street or wherever. That's the problem we're facing, because there is too much money to be made because of that tax differential.

Therefore, we can certainly solve part of the problem with more policing, making it criminal to illegally import liquor into Canada or to sell liquor in Canada or even to

purchase liquor in Canada illegally. That will help, but it will not solve the big problem. It's too widely spread, just like cigarettes. The same channels are being used by the smugglers, and in the end it's a losing proposal. This is why we're suggesting very clearly that you have to lower taxes.

Another thing which may help the process is that a lot of people, more and more today, purchase on Sunday because like me they work six days a week and like you they have long hours. You never have time to go and shop. On Sunday, you cannot purchase your spirits for Christmas at the liquor store; therefore, a lot of people will take the opportunity to purchase them somewhere else.

People cannot purchase with credit cards in Ontario. That's another thing that could help, certainly, to bring people into the system. We have to make it easier for our Ontarians and Canadians, law-abiding citizens, to purchase through the normal system, and we are not at the present time doing that.

Mr Kwinter: Mr Veilleux, I apologize for not being here for your presentation, but I would like to ask you just a brief question. I notice that in your presentation you talk about the actual decline in consumption of spirits in Ontario between 1981 and 1992. There's a 20% decline of consumption. Do you calculate consumption based on your sales or do you have some way of determining it? Is that consumption including the underground smuggled merchandise?

Mr Veilleux: Yes.

Mr Kwinter: It is?

Mr Veilleux: Yes. These are attitude surveys done around Canada, for Canada and by province. People come to you and they will ask you, "How much are you consuming?" Most people are pretty accurate. Over a period of 20 years, you can see the trends very clearly. If people are saying, "I am consuming maybe one drink a week," or, "I don't consume at all," or, "I consume seven drinks a week," that is the trend it's going to give you. When you put all of these surveys together, you get this decline of 20%.

It's very parallel to what is occurring in the United States, and it's fairly accurate. Therefore, we're saying, if this is accurate, why is it then that the legal sales in Ontario have declined by 46%? That's where we get our four million-plus cases.

Some of us may cheat a little bit when we answer the question, but your name doesn't appear anywhere and people are pretty accurate. They'll say, "Yes, I have a beer once in a while," or "I have a bottle of wine with my family for Sunday dinner," or "I have a spirit," or a cognac or whatever, and the data is pretty good.

Mr Carr: Thank you very much for a very good presentation. It was very well done and you really laid it out very well. But I have one question as it relates to what happens to the status quo. As you know, all governments, once they get a little revenue, it's hard to get them to even freeze taxes, let alone roll them back.

One of the things that may be helpful is if you could explain, if we keep the status quo and the government

says, "We realize we've taxed them too much, we can't increase any more," but if we say, "We'll keep the status quo, we won't reduce it any more," and not do what you've called for here in the solution, how much do you see it eroding some more? One of the things that would be helpful is, if governments say the status quo isn't an option because we'll just erode it further, will that happen? Or if we stay with the status quo in terms of the amount of taxes, no increases, no decreases, what do you see happening? Will we still see the decline that you've so very clearly laid out here?

Mr Veilleux: Yes. Our submission is that we'll still see the decline, but it will be an accelerated decline, for many reasons. The economy is in trouble across Canada and in Ontario. People are being overtaxed in every sector, federally and provincially and at the municipal level. Salaries are being frozen. In the end, if people have been breaking the law today, I think it's pretty fair to expect that they will continue to do so tomorrow, even if police forces are beefed up. Therefore, instead of seeing a decline of about 4% to 5% per year, as you have seen this year, as one of the slides indicated, in the first nine months the decline has been 8%. Therefore, I can see that the decline will continue to go down.

Here, if I may, I'd like to point out that we have closed in the last decade, in that period of time, 18 distilleries in Canada. Seven of them were closed in Ontario since 1990. Even with that very severe rationalization, today our members' operating capacity is at 45% of maximum. So if you are a shareholder of these companies, they're all multinational and they are looking at Ontario or Canada, you have to ask yourself a very serious question.

This is why I believe that these 9,000 jobs and this almost \$2 billion in economic impact will be lost. It's all lost to the province, it's lost to Ontario, but you and I will continue to consume in moderation. Who's going to benefit from this? The underground economy or maybe the United States, because we'll import everything that we can import. Now, we can sell legally, but the underground economy will just take over.

Mr Carr: Thank you very much for a good presentation.

Mr Sutherland: You present a good presentation here, and on the surface, looking at it, it all seems to make sense and flow. I must tell you, I'm a little sceptical that all the dollars saved would come back into the legal channels.

You mentioned a couple of things. When you talked about illegal production in Ontario, I was wondering if you could highlight what percentage of the smuggled amount of alcohol is actually illegal production here versus what you were saying earlier comes in from the United States or other jurisdictions.

You did talk about the tax rates. Last week Mr Brandt, in his presentation from the LCBO, highlighted that they had done a survey, and a recent price comparison of 254 products sold both in Buffalo and at the LCBO showed that 160, or 63%, are priced lower in Ontario. That survey there would indicate that there are some price-competitiveness issues there.

I was wondering if maybe you could respond to those points.

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Mr Veilleux: Yes. On the first question, the illegal production versus the smuggled amounts, the LCBO and the LLBO, the licensing board, estimate that the total is between about \$750 million and \$800 million. They also believe that about \$500 million is the smuggled part and \$250 million to \$300 million is the illegal production in the province. That's how they break it down.

On the tax break between Canada and the US, it is a fact that some products in the United States are higher in price than they are in Ontario, but that's not the competition here. The competition is between the LCBO and these lower prices in the US and those people who are importing 2,000 gallons in a big truck. They're bottling it, putting labels on it—true or false labels—and they are selling it on the market at \$10 while it's at \$17 in Canada and \$20 in the US, or vice versa: \$10 black market, \$20 at the liquor store and \$19 or \$18 in the US store.

The competing forces are really the major illegal importers. That's where the problem lies. These people are pretty good at what they do. They're hard to catch. You catch them one day and they find another way to bring it in. I've been talking to many of the police forces, your own LCBO forces, and it's amazing the types of ingenious solutions they will find to bring this material into Canada.

You may have heard of this big seizure that took place in a province east of Ontario, very close to eastern Ontario, where a very legitimate American firm was exporting spirits to Africa. The way they did it—and I would like to tell the story because it does impact Ontario—they shipped it to Montreal for export out of Halifax. The paperwork is all done, it's all legal and they can show the paper, but the material never leaves Montreal. The material is distributed in Montreal and half of it is on its way to Toronto.

This becomes a very serious interprovincial problem. I was in Manitoba with the Minister of Finance on Monday. They are concerned too, because if these large volumes are coming into Ontario, eventually a lot of that will find its way into Manitoba and the same occurs coming from British Columbia. So it becomes a Canadian problem and this is why I did put on the board some Canadian numbers.

Mrs Haslam: How much time do I have?

The Chair: I guess we have probably about five minutes for you and Mr Lessard to pose some questions.

Mrs Haslam: Okay, that's fine. I'd like to take another tack. When you talk about being overtaxed, you said there's too much taxation on everything and everyone is overtaxed and I'd like to make a comment. Are they also being overserved, because the taxation pays for the services that we provide as a government. When you talk about beefing up police, that is a service that is paid out of the taxation.

I think about the level of taxation when you talk about a level taxation playing field. Then do we level the playing field in services also? That means health services

that are similar to those offered in the States, which is very little, or education services in Ontario matching those of the States, or the infrastructure services and in particular health, because as someone who was in the Health ministry for a while, I'm well aware of the health cost of drinking or the loss of life, when I think about MADD and all of those. The taxes ostensibly were put on to help pay for health services that are required and some of the infrastructure. That was the number one question. I'll be very quick.

Number two: I have no idea where I would buy black market liquor. I don't drink. I rarely drink. I don't drink beer, I don't drink wine, I don't drink liquor. If somebody said to me, "Can you go and get a bottle?" I wouldn't know where to go and what to do. Where would we find illegal liquor when you find it like this? Looking at the tanker truck distribution system, I don't understand how that distribution system is there.

The last thing: When we talk about dropping the taxes \$4, and I share with Mr Sutherland the concern that not all the money comes back in, would it equal the cost of the illegal liquor by dropping it \$4? Would that equal then the cost of the illegal liquor? Those are three quick questions.

Mr Veilleux: On the health cost, you're right; there is a health cost for the abusers. But there are more and more studies coming out—they've been coming out for years—where these studies clearly indicate there are benefits also to moderate consumption. I think we have to be very careful here. I won't define "moderate" for you, because what is moderate for me may be very different for all of us around this table. But there are clearly a significant number of studies indicating that moderate consumption is very beneficial.

Mrs Haslam: I don't want to cut you off; it's just that I know how limited time is in any committee and I know Mr Lessard will have a question. I'm asking about the services then, because the taxation is what supports the services out there, in particular health services, at a third of our budget.

Mr Veilleux: With my proposal I don't think you would have to cut services, because in the end what will occur here is that I believe—and I share your concern that not all of the illegal material will come back into the system and therefore we won't recoup all of the moneys, but let's look at the alternative. The alternative of doing nothing is you will lose it all. Therefore you will have no services. That's the problem I'm trying to put on the table. You have to take a step today, because if you don't take that step, the taxes, the \$1.4 billion in revenue that you get for hostel beds, for education and so on, won't be there.

We can talk about the cost, but in the end the solution is you must lower the tax level on these goods; otherwise you will lose all of that revenue. You'll never lose it all. I cannot go to that extreme. There will always be people like you and me who will go to a liquor store and buy whatever they want to buy.

Mrs Haslam: Could you go very quickly then into—

Mr Veilleux: Yes, on the number two, where do you

find liquor? I would like to give you a quick example, and this is typical of what goes on. This one is very high-level, so I think it will reflect on what else can happen.

A friend of mine in Ottawa, in front of my office—and my office is just in front of the Parliament Building centre block. My friend is asked by the Governor General to go and make a presentation on the Constitution. He shows up at Rideau Hall; he makes the presentation; an hour after he leaves and takes a cab to go to Parliament Hill centre block. This is noon on a Monday, downtown Ottawa, a very senior official, and cab drivers in Ottawa are like cab drivers in Toronto. They're pretty intelligent about who is in the cab. He's offered, on the spot, "Do you want to purchase liquor?" He's a very good friend of mine. I won't name his name, but I could give it to you privately; you can check it out.

Mrs Haslam: I don't want it.

Mr Veilleux: My friend was so surprised. "How can you do this?" He says: "It's easy. What do you want? How much do you want? I've got it all. But you have to buy a case." It was these big plastic jugs that are a gallon and a half or 160 ounces, and he's selling this thing for \$20. This is a third of the price you would pay at the liquor store.

That's a typical example. It's going on in Ottawa. As a matter of fact, you know that illegal liquor was served on Parliament Hill.

Mrs Haslam: What about the bottles that were labelled? You mentioned the labelled bottles. What about those? Where would they sell those in an illegal market, the ones that you said come in with a tanker truck? I'm sorry, Mr Lessard. Would they sell those in the cab?

Mr Veilleux: Oh, yes, definitely.

Mrs Haslam: How much time is there?

The Chair: We're just about out. But Mr Brandt, in our previous presentation, did say that they'd investigated the garbage bins out behind restaurants and found many what would be considered illegal bottles of liquor, however labelled appropriately.

Mrs Haslam: Could I pass to Mr Lessard now and get the answer to my other questions—

The Chair: Sure.

Mr Lessard: Mr Veilleux, I want to thank you very much for your presentation. You know very well my interest in maintaining jobs at Hiram Walker, especially in Walkerville. Distilling is very important, and even though you refer to the spinoff jobs in agriculture and bottle manufacturing and other services provided to distillers, without distilleries none of those services would be provided and there wouldn't be any benefits. I wouldn't want to see what happened in Mr Johnson's riding with the closing of the Corby distillery happen in my riding.

1630

I've spoken with both the Treasurer and the Premier about your proposal and even though the Premier seemed to be very receptive, I can tell you that the Treasurer is always very reluctant to embark on proposals that he sees a cost attached to and your proposal here does indicate

that there is a cost for your \$4 reduction in the markup. I wonder whether you've done some work on a proposal that may indicate to the Treasurer that it's revenue neutral and that you have good research to support that.

Mr Veilleux: Yes, we have considered various options. Obviously, the \$4 reduction is, we believe, the level required to bring most of the two million cases back into the system. I agree that it will never all come back, but if you make the reduction too small, you will never get the consumer back into the system. You may want to do it at a \$3 reduction, and if you do a quick calculation, at the \$3 reduction level you will break even, but the unknown there is whether or not you're going to get 1.5 million cases back or 1.7 million or just a million, and that I cannot answer honestly; I cannot answer that question.

There is another solution. If the bottom line is so important—and I know it's very important. That's what I was talking about, about the level playing field. Why do we tax spirits at 83%, wine at 60% and beer at 50%? It's all alcohol and as the Addiction Research Foundation says, they're all the same. To a breathalyser, it doesn't matter if you have one beer, five ounces of wine, 12% alcohol per volume, or a glass of spirits, an ounce and a half with some mix. To a breathalyser, it's all the same thing; it's all the same amount of alcohol.

So why don't we tax all alcohol the same? We could maybe raise the tax on beer slightly. I know it's not a very good thing to do. You don't want to raise taxes. But there are alternatives there and if people are concerned about keeping the revenue neutral, that can also be achieved. Is a penny per bottle too much? Maybe it is; I don't know. But there are solutions there so that you can keep a zero sum at the end of the day.

The Chair: Mr Veilleux, thank you very much for making your presentation before the committee today. It was very interesting.

G.A. FOSS TRANSPORT LTD

The Chair: Our next presenter this afternoon is Mr Jim Taylor, vice-president of G.A. Foss Transport Ltd. If you would please come forward, sir, make yourself comfortable and whenever you are comfortable and ready, please make your presentation. Mr Taylor, I see you have someone accompanying you today. If you could identify this person for the purposes of Hansard and the committee members, it would be appreciated.

Mr Jim Taylor: This is my business partner, the president of our corporation, Gord Foss.

The Chair: Welcome to the committee.

Mr Taylor: Twenty-five years ago, when I was in high school, I had a choice of joining the debating society, the public speaking society or the chess club. Unfortunately, I joined the chess club.

Interjection.

Mr Taylor: That's what this is like, this brief that I'm going to present. I'm sorry it doesn't flow, I'm sorry we're going to have to jump all over the place, but I think in here are a lot of details that I'd like to point out.

If you'd turn to the second-last page first, addendum II I call it, it's just a summary of how big the fuel market

is in Ontario. The various graph figures that I've taken come directly from Statistics Canada.

In 1991, the Ontario government increased fuel taxes for Ontario residents and Ontario companies operating in Ontario by 30%. Immediately, the total consumption of diesel fuel fell by 300 million litres in one year. At the same time, the total consumption of taxed gasolines fell by 400 million litres. The fuel tax increase was three cents a litre. You can see, on the following page, from Statistics Canada, 1991 over 1990, the total consumption in Canada of diesel fuel dropped by 300 million litres.

In every other province in Canada the consumption remained consistent. Quebec for example, going through the same recession we were, actually increased its volume of diesel fuel consumed, actually increased the volume of diesel fuel that taxes were paid on. Ontario, after going through a three-cent-a-litre tax increase, dropped 300 million litres. That's just a drop in the bucket of what's involved in the underground economy in trucking.

There are two basic reasons why there is a significant, more than significant, underground economy. First of all, there's the price as a consideration. The provincial tax and the federal tax per litre of fuel in Ontario totals 18.3 cents a litre. The price the petroleum refiner, the petroleum marketer will receive will be about 20 cents a litre; 18.3-cent-a-litre tax plus the GST if you're the end user.

The other thing that is really a detriment to the Ontario Trucking Association is the Byzantine laws that we have to operate under. If you can appreciate that, when a truck fuels up in Ontario, drives into another jurisdiction, for the distance that vehicle travels in that jurisdiction the trucking company has to remit the appropriate taxes. For example, if a truck drives from here to Detroit, fuel taxes are due to Ontario for the distance travelled in Ontario; fuel taxes are due to the state of Michigan for the distance covered in the state of Michigan.

It's not like when you hop in your car and you just drive wherever you want to go. Trucks are responsible for remitting to each jurisdiction through which they pass the appropriate amount of fuel taxes for the product their trucks consumed in that jurisdiction.

Okay, now it gets really Byzantine because the regulations are different for every jurisdiction in North America and there are 60 different jurisdictions. There are 50 states and 10 provinces, and the two territories, which are really a minimal factor. What happens in the province of Ontario—if I can refer to addendum I, some examples—is you're only responsible for calculating the fuel consumed in jurisdictions outside your own jurisdiction for the actual trucks that move through those jurisdictions; simple enough. You have to calculate it and remit those taxes by the 25th of every third month, the 25th day after the end of a quarter. It's virtually impossible to do that.

When a truck is travelling interjurisdictionally between here and California, it might go down to California and deliver a load, after that travel over to Dallas, from Dallas go somewhere else, and from somewhere else and from Dallas will end up in Michigan and from there it might end up out in British Columbia. It might be gone for two or three weeks before the driver gets back.

By the 25th day after the third month, all the calculations have to be remitted for the consumption of fuel that was being burned in all those jurisdictions up until that point. The truck might not even be back yet. Fuel receipts might not even be processed yet. You might not see the driver until he's had a layover at his own house. By far and away his least likely concern is going to be the remittance of his fuel tax receipts for all the jurisdictions just passed through.

You throw that kind of variable in, then you throw in a variable like the state of New York where not only is it not a flat-rate tax per litre, but it has to be remitted as it is in Ontario, but they have what they call buffer zones. For instance, if you're travelling on the New York State Thruway, it's a buffer zone. The tax that you have to remit for the distance travelled in that area is different from the tax that is done on a parallel highway. The tax for downtown New York City is different from Long Island. The tax is different if you're loaded or if you're unloaded. These are all variables.

The province of Quebec is much the same sort of thing. They have buffer zones also, and as an added variable to be considered, not only are you responsible for listing and defining all the vehicles that travelled in that jurisdiction; you also have to—if you can appreciate this—for every truck in your fleet, in every jurisdiction in North America, turn in receipts, total fuel consumption and total mileage, once again, by the end of the 25th day of that month. It's virtually impossible.

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If you don't do this, what happens is you face significant fines. You get the Ministry of Revenue sent in to audit you. They come in and the fines initially start off as—I think it is right here; it's right on this page here just after addendum I—"New penalty rates"—gleefully it says—"late return \$300 minimum, non-payment and short payment—up to 25% of tax due." That's the start.

There's no way it can be done, as you can appreciate, I hope, and there's no way it really does get done. That's the scenario.

As I said, a long-haul truck will load up and carry 350 imperial gallons of fuel—1,600 litres. That is enough fuel to drive 2,500 kilometres. It's 2,200 kilometres from here to Winnipeg. It's approximately 2,300 kilometres to Dallas, Texas. It's 2,100 kilometres to Tallahassee, Florida.

What happens is that there is a horrendous black market in fuel. Diesel fuel is identical to furnace oil. The only difference is the end use of the product. There are basically three grades of product. The first grade of diesel oil is called diesel number 1 clear or a variety of things, and it is designated that because it has the lowest pour factor of all three products. Usually about minus 40 degrees it starts to gel up and becomes unusable. Diesel number 2 is usually about minus 20, minus 25 degrees centigrade when it starts to gel and becomes unusable. Diesel number 3, which is a fuel that is used for the most part in the continental United States, is the least-expensive product and is not available in Ontario for trucking companies. It gels up at about minus 10 degrees Celsius. That product in Ontario is available only to railways and

shipping companies.

The highest grade of diesel product, unlike gasoline, has the lowest number of combustion points per litre of fuel. So you're penalized because you get worse fuel economy on it, by about 10% in the lowest grade, grade number 3. That's measured in terms of British thermal units.

So you're penalized for buying fuel in Ontario because of the paperwork that's involved; you're penalized because of the product you buy, you're going to get 10% less fuel economy for it; and you're penalized because you have a price that is just way out of line with all other jurisdictions. For example, Ontario, as I said, is 18.5-cents-a-litre tax above the price that the actual refiner gets. New York, which is the highest jurisdiction in the United States, is 10.7 cents a litre, and this is after considerations of currency exchange. I used C\$1.32 versus US\$1 as a factor and converted the American gallons to litres. New York, which has the highest tax per litre, is 10.7. The state of Michigan is 5.23 cents a litre.

What happens, and it happens all the time, is that a trucking company that has a load to go to Winnipeg, first of all, does not drive through Canada. They drive through the United States, because all they have to do in Michigan is remit 5.23 cents a litre. It makes no difference to the company on whose behalf they're carrying the product; they just want the lowest rate possible. They do not specify, "Well, we'll give you a load but you're going to have to take it around the Lakehead." They say: "We're going to give you a load. It has to be in Winnipeg two days from now. How much do you want for that?" So the routes are all through the United States now. They're not through Canada.

Quite frankly, there's a huge black market in the States for diesel fuel and for gasoline, but more so for diesel fuel, and the reason is simple. In Ontario, we dye furnace oil a purple colour. That's authorized and supervised by the Ministry of Revenue. The purple colour signifies that there's no road tax on that product. It's a nice, handy thing to do. But it doesn't happen in the United States; only in Canada. In the United States, they don't dye their furnace oil a different colour, so in New York, it's horrific; it's basically a realm of organized crime handling diesel fuel. They order furnace oil, they do the laundering; it's the same product. They load a truck, and it takes five minutes to load a truck hauling 30,000 litres, 7,000 gallons. They buy this furnace oil, shuffle it through various companies, it comes out the other end, and they deliver it somewhere as diesel oil. No taxes are paid. It's horrific, and that is moving up into Canada.

We are a company that's involved basically in the haulage of petroleum products in Ontario. We will have hauled about 300 million litres this year. We see that happening all over. It's very easy for anyone in the trucking industry to identify an American-based truck coming up into Canada. The export licences are non-restrictive; nothing happens there. The flow-through of product is virtually a bucket with no bottom in it.

Until recently, we owned a company which was involved in the sale and leasing of specialized tanker-trailer units. One of the customers we had sold a trailer

to, we turned around and found him operating basically in competition with us, which is no problem. But we couldn't quite realize how he was managing to thrive, because about three weeks or six weeks after he started, a very brief time after he started, he was back to us for his second trailer.

We've been in business since—Gord started out in 1979, and trucking is very competitive; you cannot expand that fast. As it turns out, about three months ago he was shut down by the ministry of revenue because he had found a way of filtering out the purple dye that's in furnace oil in Ontario. He was going to refineries in Ontario under a cooperative—a cooperative, not purchasing it directly—buying furnace oil, taking it back to his place of business, bleaching out the dye, removing the dye, turning around and flogging that product off as diesel oil.

Now, I would sure like to have a profit margin of 18.3 cents a litre. In a truck that would hold 45,000 litres of product, we're talking, each load, \$7,000 or \$8,000 worth of taxes that were gone, missed. That's how much it is.

If I can give you an example, we used to service the Toronto Transit Commission for diesel fuel; it has 1,600 diesel buses. With these two trucks, these two people could have supplied enough product to run those 1,600 buses, and it could have been completely underground. That's how big it is. That's just the most recent glitch that has happened. That kind of thing is happening all the time.

An example: I had a bad day—

Mrs Haslam: Join the crowd.

Mr Taylor: It was about six weeks ago. We haul a lot of plastic resins. One of the things that's involved in plastic resins is that you have to scale the truck empty, you load the truck and scale it full, and the customer pays for the difference in price on a per-pound basis. We haul about 60 million pounds a year, 30 million tons. Is that right? Anyway, it's a lot of stuff. We're significant in the marketplace.

Mr Wiseman: I wouldn't mind having the commission on cleaning them out.

Mr Taylor: We do that ourselves. Anyway, I was over in Brampton and went into a place to make arrangements with a company that has a regular facility there for regular business, and as an adjunct to the business they have a scale for trucks to come in, and they have to scale their own trucks for their own products they use.

Right up on the board there was a sign that said, "Truck scaling, \$5." I said, "That's great; that's a pretty good price." Well, it was \$5 cash. If we wanted to use the facility and didn't want to pay cash, it was \$10 plus applicable taxes. It was that blatant.

1650

I went down to a doughnut shop and I ran across an old friend of mine. Actually, he used to work for us. I was talking about that and he was just laughing because he is now doing interjurisdictional hauling for himself. He was laughing at how I thought this was rather unusual. He said he has a number of ways of getting around fuel taxes, and this is a fellow who hauls regular-

ly. When he wants to fuel up he goes to a site in Buffalo outside the city limits, underground storage tanks there, and buys the product tax-free. You buy fuel somewhere in the States, buy fuel somewhere in Canada, you pay for the fuel you purchase, and for \$5 extra you get a pad of receipts and then you just fudge wherever you went.

What happened is he was buying fuel in New York, tax-free, driving wherever he wanted to go and then when he had a load to go to Winnipeg claimed that he went through Canada and went through the States. What happens is very simple. You apply for a rebate for the distance travelled out of the jurisdiction on Canadian fuel, so the government will pay you—am I clear on this? It's tough.

If, for example, you drive from Toronto to Winnipeg, go through Ontario, you're going to be paying a diesel tax of 18.3 cents a litre for all this distance in Canada. There is no way the government or anybody will know that you went through the United States and bought fuel in the States instead but just claimed you went the other way round. There is no control. It's that simple.

So you have a fake receipt, which are a dime a dozen, fill them out yourself, from Joe's Gas Bar in Parry Sound or from someplace in Sudbury or North Bay or wherever you want, because they're all readily available, claim you were there, claim you were running on Ontario fuel, which you pay taxes on, and claim the tax back. But you weren't there.

It's a big scam—huge. Let me tell you how huge it is, and let me tell you that the idea of controlling this by bringing in legislation or doing more enforcement is foolish. There are 13,000 trucking companies in Ontario and 65,000 pieces of revenue-earning equipment moving up and down the roads, and that's only in Ontario. There are probably that many trucks again from other jurisdictions operating within Ontario on a given day, so we're saying somewhere around 130,000 pieces of equipment.

Statistics Canada for 1991, to give you an idea, says that interjurisdictional state shipments between Ontario and the United States of Ontario-domiciled trucking companies were 1.1 million shipments in one year. They estimate that as half the market. The American truckers coming in are another one million. Other jurisdictional trucks are probably 0.5 million on top of that. That's going south, and trucks do not go one way loaded and come back empty, so double that figure coming back. There's a total, just between Ontario and the United States, of about 4.5 million truck shipments a year crossing the border.

Throw in the scams for fuel, throw in the fact that it's virtually impossible to conform to regulations for fuel tax reporting, throw in the fact that the United States basically has no difference between furnace oil and diesel fuel, throw in the fact that furnace oil in Ontario now is being bleached and is readily available—you may not even know that what you're buying is not a legitimate product; often you don't—and it's horrendous.

It's amazing, quite frankly, that there are any Ontario interjurisdictional trucking companies left. It's all black market. It's easier to be black market than it is to be aboveground, because if you're aboveground, as we are,

as soon as you do something wrong, they're there to audit you and you're penalized. The people working in the underground economy—they don't even know they exist.

For example, of those 4.5 million truck shipments last year, most of those are going to be out of the Golden Horseshoe in Ontario. That's the industrialized area. There are only 11 trucking vehicle inspection stations in that Golden Horseshoe and there are 4.5 million shipments going by their doors. Those trucking inspection stations are manned by civil servants and are open from 8 o'clock in the morning till 4 o'clock in the afternoon, then they shut down. I'm sorry; our trucking company operates seven days a week, 24 hours a day. Everyone knows where the inspection stations are. We all have CBs in our trucks. If you're caught in one, it's because you're foolish enough or blind enough or you were drunk or something and just happened to cross it. It's that simple. Thank you.

The Chair: Thank you very much, Mr Taylor. We have about seven minutes per caucus, a little less than seven minutes.

Mr Carr: Thank you very much for a fine presentation. Anybody who looks at the way we've set up the fuel situation would realize it's crazy. I don't know if there's anybody to blame for it, but it is certainly a crazy system. With all the problems of jurisdictions and overlaps in provinces and states, what is your help to us to undo this?

Mr Gord Foss: What Jim didn't make that clear was that Ontario has the highest fuel taxes in all of North America, just as with alcohol. Any time there's a big disparity in taxes between jurisdictions, there's going to be bootlegging. Ontario being the highest in all of North America, we're going to be hit. Why would you buy any fuel here? If you're going to buy it illegally, you're not going to buy it here.

Mr Carr: It's the same principle—I don't know if you were here for the people before, the Association of Canadian Distillers. They said if you lower it you'll actually get more because you'll stamp out the black market, and if you do nothing it'll get worse. How much would the government have to reduce the fuel tax—I don't know if you want to talk cents or percentage—and then how much additional do you see coming through? Will we lose revenue, bottom line? That's what all governments are worried about, the bottom line. By what percentage do you think we could reduce it, if in fact that's what you're suggesting, and if we do, what would that do to the bottom line? Would it increase it, decrease it? Maybe you could give us some idea.

Mr Foss: We'd be making up numbers, sitting here. But these last two increases—a 33% increase over a period of one year is unprecedented anywhere. If you rolled that back to the old price, that would be a very good start. As far as what impact that would have, you'd have to work through the numbers yourself.

Mr Carr: You don't know how much increase that would mean if we went back and—

Mr Foss: You're going to have less money, but

you're going to have more business too.

Mr Carr: Will it increase? Will more people travel through Ontario? What do you see it doing if we did what you're proposing?

Mr Taylor: As it stands right now, there is not an American trucker who will buy fuel in Canada. As I said, the American trucking companies coming up to Canada are probably responsible for somewhere around 2 million of the shipments annually that come out of Ontario. They essentially don't buy any fuel here. So that's a start.

But the other factor, and I'd like to highlight this, is that the tax consideration is of primary importance, but it's the bureaucracy. Once you get penalized for being part of the system, as we have been, then it makes no sense to be part of it. You can't fill out the fuel tax reports on time. If every time you turn around, and you're trying diligently to be part of the aboveground economy but instead of that you're getting fined \$300 here, \$500 there, \$2,000 somewhere else, then you're going to say, "To hell with it," and go somewhere else. It's much easier to go somewhere else.

Part of the solution is technology. The government of Ontario in every jurisdiction right now is relying on the goodwill and honesty of all the truckers who come through this area and their willingness to do paperwork. Part of what you have to do is come up with a system where a truck may be monitored differently, automatically from each jurisdiction as it comes across the various jurisdictional boundaries and where the calculations and tabulations are done without any input from the driver or from the trucking company. It would amount to something like a computerized black box mounted in the truck. The tax money you're going to get back from something like that is going to be considerable.

Quite frankly, the technology is there already. Our trucks are already computerized. They're computerized for fuel economy, they're computerized for speed control, they're computerized for distance—they're computerized for everything. New trucks have it there already.

1700

Mr Sutherland: Just a couple of questions, one directly related to your presentation and your concerns. I acknowledge your paperwork concerns. I've had a few truckers into my office showing me, particularly if they're going to Quebec, what they have to fill out just interprovincially, let alone going across to the States. It is quite a difficult challenge.

Two things: One, when you talked about the person driving from Toronto to Winnipeg and whether they go through Ontario or go through the States, that they can do that without anyone knowing, isn't there the ability to cross-reference the receipts being submitted between their mileage logs and the other types of formal logs that are put in there? My understanding is that there are meters on the mileage thing that you can check. I don't know how prevalent that is here, but my understanding is that it is in some of the States.

The second question I guess I want to ask you is, just being part of the trucking industry, the distillers talked about people bringing in stuff in tankers, trailers, alcohol

being brought in there. Also, I think he said one was supposed to be auto parts, but when they opened it up they found it was alcohol. Do you have any information that you can share with us in a broader sense about the trucking industry and how much transportation of illegal or smuggled goods may be going on?

Mr Taylor: Let me put it this way: A truck is here today and the day after tomorrow it's in Dallas, Texas. You cannot, as an economy, think of yourself as a sovereign island with bridges that people have to leap over or gorges they have to leap over, because quite frankly things are so mobile that it doesn't work. If you want to pretend that you can stop illegal shipments, or what you call illegal shipments, at the border, at the Niagara River, you're fooling yourself. The tooth fairy doesn't exist.

Where there is an inflated tax base, there will be a black market. It is incredibly easy to get across the border with black market fuel. The rewards are obvious. In one day, a 12-hour shift, we try to earn \$700 revenue on a truck, okay? That's on an investment of \$90,000 for the tractor, \$150,000 for a trailer, because we use specialized equipment—virtually a quarter of a million dollars.

Anybody operating in the black market trying to haul fuel—I'll give you another example how easy it is—can invest in a low-budget truck and \$5,000 or \$6,000 for a trailer and, as I said, make a profit margin of \$7,000 each trip. You can do two or three of those a day.

To give an example of how easy it is, there are no domestic petroleum refineries in the state of New York. The product is all refined either in New Jersey or here in Ontario. A major refinery here in Ontario had entered into a contract with a distributor in Buffalo. They got vast amounts of crude in via the pipeline, refined the crude into diesel fuel, furnace oil, and then it was trucked back into Buffalo for distribution.

There is nothing to stop one of those guys from taking his 30,000 litres of fuel and dropping it off anywhere on the way back down to Buffalo—it takes him 10 minutes to drop a load of 30,000 litres—getting back on the highway, going through Customs and saying, "Yep, here's my weigh scale; I've got 30,000 litres on board," because Customs is not going to climb up on top and take a look inside. They don't do that. In the meantime, he's just made \$5,400 in Ontario above what his cost is. That's the type of situation it is.

Mr Wiseman: I've had a few calls about what happens if you drive a truck in Quebec and you don't have the proper permit.

Mr Taylor: We're licensed to go anywhere in Ontario. We're licensed to leave the province and serve other jurisdictions. We're licensed to go to Quebec and six other states. So we did. We headed out for our first trip in, came back into Ontario and we got a \$300 fine because we weren't licensed by Ontario to come back in the province once we left. That's the type of bureaucracy we're having to deal with.

Mr Wiseman: I imagine this is far more complex than I'm about to try and do, but, for example, are there agreements between Ontario and the States where there's

supposed to be some kind of rebate on the number of trucks that flow back and forth across the border, so that if we're giving our 18-cents-a-litre tax back to the driver of the truck, then we should be compensated at least, what, seven or eight cents a litre from the state south of the border because our truck is buying gas and spending money there?

Mr Foss: You're supposed to pay the road taxes in the jurisdiction you are in. If you buy fuel in Ontario and you drive down to New York state, you get a refund from Ontario and you pay it to New York state. You have to work out how many miles per gallon that truck works. If the truck is going through all different states, any place he buys the fuel—it doesn't matter where you buy it; it should all work out even—you get a refund from the jurisdiction where you purchased the fuel and you pay it to the jurisdictions that you run to.

Mr Wiseman: If you're running from Buffalo, you could buy in Buffalo, run to Montreal and run back to Buffalo without having bought any fuel.

Mr Foss: Exactly.

Mr Wiseman: So you would have nothing to rebate to the province of Ontario, or are you supposed to pay?

Mr Foss: You should. You should pay for the miles in Ontario. Whatever fuel tax you should have paid, you have to pay. If you should have burned 100 gallons or 400 litres of fuel in Ontario, you're obliged to pay that tax to Ontario.

Mr Wiseman: This is really hypothetical and it probably will reveal a whole host of problems, but, just hypothetically, what if the province of Ontario decided to drop the rebate and in dropping the rebate—it would still have all of the tax revenues—was then able to, because it still maintains those tax revenues, drop the price per litre?

Mr Foss: You'd be shot probably, because every state and province operates the same way: You pay for the miles that you drive in the province. You just couldn't do it. You would have such a protest. It is supposed to be a highway use tax. That's what road taxes on diesel fuel are.

Mr Wiseman: I didn't say get rid of them; I said drop them to a level that is competitive.

Mr Taylor: Oh, reduce them.

Mr Foss: Reduce them but not refund if you run out of the province. That's what we're saying. It's a highway use tax and it's not used that way in Ontario; in every other jurisdiction it is. In Ontario, it just goes into general revenue, supposedly. The idea is that it's supposed to go to maintain the infrastructure.

Mr Taylor: I'm not quite clear on your question. In the brief here I say the average shipment that goes from Ontario to somewhere in the States in distance is about 700 kilometres.

Mr Wiseman: I haven't been able to read all of it.

Mr Taylor: That doesn't matter. So if you're saying that 50 kilometres of that is in Ontario and the remaining 650 kilometres might be four different states that we're going through with this load of product, within the

product there wouldn't be a clearing-house effect between the various taxes due between—

Mr Wiseman: If I understand, if you're running from Toronto to Winnipeg and you go through the States, the drivers there can claim for a rebate on the miles that they've driven in the United States because they haven't driven them in Ontario.

Mr Foss: A rebate from Ontario and then you have to pay the various states.

Mr Wiseman: So the driver would be paying the various states?

Mr Taylor: Yes.

Mr Foss: But because their tax rates are only a portion of ours, they would go that way. There's nothing illegal about doing that.

Mr Wiseman: No, it's part of the complication of the paperwork.

Mr Taylor: That's right.

Mr Foss: It's just as complicated to run through Canada, because you have to do it between the provinces, but it's much less expensive to run through the US.

Mr Wiseman: What a maze.

1710

Mr Phillips: It sounds like a big and relatively complicated problem that I need to sort of get my brain—

Mr Wiseman: That might just classify as the underestimation—

Mr Phillips: I always assume everybody else understands it but me, so I pretend I—

Mr Foss: We don't understand it.

Mr Wiseman: You're not alone on this one. I feel I could admit that.

Mr Phillips: One thought you gave us, among many, was that somewhere down the road technology is going to come into play on this thing as a side issue, and I think we shouldn't lose sight of that. One of the things on the toll roads is that we were going to use the toll roads for driving Ontario technology, I think, on automated tolling—you know, chips in the cars as you roll over these things—and that maybe as we—

Mr Taylor: That's exactly what should be put in place, that sort of scenario for conducting field tests.

Mr Phillips: I'm just saying that maybe as we try and find some good in the underground economy, there may be the use of Ontario-based technology. Because I think what you're saying is that the trucking industry in North America must be a nightmare to kind of keep the papers straight, because if you're running, as you say, all around there, you're going through 30 states, you've got to file 30 rebates, I gather. I can't imagine. I'm just saying that I think that as a side issue in our report we should—is there any opportunity to use this as a small side issue to drive Ontario-based technology?

Mr Taylor: Make it a big issue.

Mrs Haslam: We're already on a big issue.

Mr Phillips: Yes, that's right. I think we are, but I think you've given us a good suggestion that's worth at least pursuing. I think you've identified three or four

different problems.

As I understand them, one is that people are selling fuel illegally in Canada or in Ontario and that not only hurts taxes, it hurts legal people like you who normally would haul legal stuff. People are trucking in Ontario and not reporting. Ontario truckers are at a disadvantage because people aren't reporting properly.

Thirdly, I think you've said, as others have said, that in some respects the bureaucracy of all of this almost penalizes the people who are trying to be fair and honest, that you run the risk of being driven underground not only to try and save money, but to try to operate legally, and I think that's an issue we've heard from many people. It's just that over the years the system's become so complicated. That's the third thought I've taken from you, and the fourth one is just the technology one.

Mr Foss: Could I make a point? We're talking very generally. One specific thing: We have to report fuel taxes in Ontario around the 23rd of the month following the quarter; every other jurisdiction, it's the 31st. By the time we get the paperwork back, which is, say, the eighth, ninth or 10th of the month, we have about two weeks to get that in. We're a small company. We have a fellow who drops everything; he can't even take a vacation at that time. No billing is done. Nothing is done for two weeks while he scrambles to get this done, and it's almost impossible to do. We're small; it's humanly possible but almost impossible. At a smaller operator it is impossible. So they just don't do it or they just write in any old numbers and get a refund that's not based on anything.

But by making a small change and saying, "Okay, align it with all the other jurisdictions and make it the 30th or 31st of the month following," you would have an extra week and almost double the time to do it. It would be a very small thing. What you're doing is you calculate it and you're losing a bit of revenue because you haven't got that money for a week. It's significant, but I think you gain by just making it possible to comply.

Mr Phillips: That's the sort of small issue that we can at least get an answer on why it's done the way it's done. If there's not a logical reason for it, then in theory maybe we can have some impact on that.

Mr Taylor: Let me stick my foot in one more time. There's a move afoot in the southern United States. In the smaller states jurisdictions are banding together and saying, "Look, you do not give us the right to audit your domiciled trucking companies in your own state that are travelling through us." And you don't; Ontario doesn't have the right, for example, to go down to Arkansas and audit a trucking company that may be hauling a lot of freight up into Ontario. You don't have that right. So whether or not their figures are correct, you have no idea.

What is happening is, I think six states so far are banding together, harmonizing their fuel tax requirements—not necessarily their rates, but the requirements for reporting and doing it as a block, so that when you have six states you can forget about whatever, reporting for each individual jurisdiction. This is the direction they're heading. You report for that area alone and then the states themselves are responsible for disbursing the

fees among themselves. That is a significant thing to be done also.

The Chair: Mr Foss, Mr Taylor, thank you very much for making a presentation before the committee today.

CANADIAN MANUFACTURERS' ASSOCIATION

The Chair: Our next presenter this afternoon is Eric G. Owen, director, taxation and financial issues for the Canadian Manufacturers' Association. Welcome to the committee and, sir, when you have made yourself comfortable, please make your presentation.

Mr Eric Owen: Thank you, Mr Johnson. I feel I have an affiliation with you because my wife's cousin is Paul Johnson, the historian in England.

The Chair: I've read some of his books, yes.

Mr Owen: I must say, I'm not as good a writer as he is, nor do I have as much money.

It's rather interesting that he was the editor of the *New Statesman*. I don't have to tell certain people what the *New Statesman* is, but he found he was a very prolific writer and made a lot of money. He left his job at the *New Statesman* and he's a Conservative now.

The Chair: Heaven help me that doesn't happen to me.

Mr Owen: I was rather intrigued when I was asked to appear before the committee here. It's an issue that has been rumbled on for quite a number of years and suddenly it takes up a high profile. There's nothing really to understand why it did take a high profile, because it's perhaps an area where tax can be obtained from.

I must apologize to the House committee for the title of the issue under discussion, because as you can see on the front it's "Happiness is a Positive Cash Flow." The title is to alert the government that, by seeking solutions—

The Chair: I'm glad you re-read it. I thought that said "cash cow."

Mr Owen: Cash cow, cash flow. I had my teeth in when I said it, as well. The title is there to alert the government that by really seeking solutions to the problem, it's their duty to provide happiness to both the tax collector and, more importantly, the taxpayer.

I'm here representing the Canadian Manufacturers' Association, which was formed over 120 years ago. In my presentation it does list a few statistics, but I've got to say that if the growth and prosperity of Ontario are threatened, that in itself should be sufficient to strengthen any alliance between the private and the public sectors. We do have a great deal at stake here as well.

In viewing what the private sector is, the private sector, in my presentation, involves corporations and people. I heard the gentlemen who were here before me make the comment that it's easy to drive corporations out of Ontario—all they do is just relocate somewhere else—whereas people, usually their only resort is to the underground economy.

In the invitation you did list it in three ways. The magnitude was the first one and my definition of the underground economy perhaps may be a little different

from one that you have seen before. I hope it is. My definition of the underground economy is that part of the economy which goes largely unmeasured by statisticians and tax officials. It includes unreported income from legal sources, such as moonlighting and bartering, as well as income from illegal sources such as trafficking in narcotics, illicit gambling and prostitution.

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The part which is illegal, when considering legal sources, is the income tax that's evaded. This is one of the things that I have to look very closely at, because I hear numbers being quoted and the magnitude of the numbers startles me. Indeed, if it is on-the-side legal sources, this may explain why people don't feel too badly about conducting their legal affairs the way they do.

Obviously, tax evasion has important implications for the various governments of Canada. To me, this indicates, however, not only a revenue loss but a difficulty in measuring the health of the economy, as unemployment may be overstated and GDP growth underestimated. That's quite important if you look at policy priorities from the point of view that if the GDP is bigger than what you think, you may be implementing certain policies which may be a little severe in light of the GDP that is there. Consequently, the unemployment may not be as great as the double digits that we look at. I'm not saying it's not. I tend to believe the unemployment is there but it's overemployed once they're unemployed. This is one of the things.

I heard a comment the other day in a meeting I was at. People were quoting downsizing and somebody says, "We don't call it 'downsizing' now; we call it 'right-sizing.'" This is in laying people off, and I was pretty blunt. I said, "I just call it bloody unemployment." I think it is unemployment, regardless of how you call it. Beauty is in the eye of the beholder in that case.

Trying to measure the magnitude of reported business is a problem in itself, but when you try to rationalize that proportion which would apply to unreported taxes, it becomes an even greater mystery. I've gone through a number of the surveys and I still, for the life of me, can't come to any specific figures. You can, as I say here, read in various surveys that the underground economy, as a percentage of GDP, is growing, and I suppose that's why we're here today.

Surveys in the late 1970s indicated—and it depends on which methodology that you use, and I do know, having read the presentation from the department of Finance, that you have all of those figures—the underground economy was thought to be around \$55 billion of economic activity. Now, this is where I say it's \$55 billion of economic activity, not unreported or evaded taxation.

The latest figures recently offered by economics professor François Vaillancourt suggests fiscal fraud totals as much as 16% of Canada's \$700-billion economy. I took my calculator and that translates into \$112 billion. That, however, as I say, is not tax leakage.

To try to measure the tax leakage, you must first decide what proportion of the \$112 billion is applicable to corporations, labour, and goods and services, as

different rates of tax apply in each case. This, in my opinion, exemplifies the difficulties.

I sat back there, looking at what the Ontario economy would be in terms of this, knowing full well that your officials I think indicated around \$300 million or \$400 million as their leakage. If you look at the \$112 billion in Ontario, of that it is about 33% and that gives it about \$37 billion. But if they're looking at \$300 million to \$400 million, I don't know what percentage of it that is, because usually the people who are evading taxes are—and I don't say this to be derogatory to them—the unemployed people, and they would pay little taxes to start with. As well, the rates of tax, be it the consumption tax of 7% at the federal level or 8% at the provincial level, are rather lower.

I haven't, in my paper, tried to address criminal activities, although it's interesting that we look closely at tobacco smuggling right now in the Cornwall Indian reserves. I think it was about a year ago that our biggest concern was cross-border shopping. However, that seems, like the dodo bird, to have gone. I don't know why, because it doesn't make sense to me, with the Canadian dollar being as fluid as it is. It really indicates to me that there should be people going backwards and forwards still.

The reason for the underground economy—these are my reasons and I'm sure other people's as well—I'd like to rationalize my understanding that if a taxpayer believes the system is relatively fair he or she is willing to comply. Even if the system is not perceived to be fair, a personal standard, sometimes referred to as a social conscience, kicks in and a person complies. Also, the fear of being caught and punished is obviously an additional deterrent.

Looking more closely at fairness, not only must it be present but it must be perceived to be present. Such a perception must be that all taxpayers are paying their appropriate share, and should the perception be that others are abusing the system, taxpayers could and often do indulge in their own tax minimization. As well, the tax system should be simple to understand and apply.

I think this is one of the major problems that we have, the simplicity of the tax system. I have been in tax for quite a long time. We underwent a real review in 1972, and we came up with a tax act which was about an inch thick. You go into my office right now, I think the tax acts are about two feet thick, and this is from 1972 to 1992, 20 years. It may be time to do the whole thing again—give the poor accountants and lawyers some more money, I suppose.

Another problem is disrespect of the system, and this is important when assessing taxpayers' attitudes towards governments' policy goals. It's especially so when considering peoples' attitudes towards government expenditures.

I think it must be agreed the most hated tax imposition that Canadians discuss is the GST. I think we would all agree on that. I must say, by the way, that I was one of the people on the royal commission, the federal sales tax commission, that did recommend the GST for Canada. There were 18 of us—or 17; I think we're dying off. I'm

still not scared to say I was involved with it. I still think it was a good tax, although—I don't want to debate the merits—it was imposed at a very inappropriate time. It really was an inappropriate time, and its visibility serves as an irritant to consumers all the time.

The Canadian Manufacturers' Association pushed very hard for the visibility of the tax because the federal sales tax was invisible and we could not point fingers, it was going up in leaps and bounds. It went from 8% to 9% to 10% to 11.5% to 13.5%, and nobody knew this was happening. What we wanted was a visible tax. In retrospect that was a mistake, I do believe.

The perception of the new tax, most taxpayers thought, was an additional tax burden, even though it did replace the federal sales tax. Such a burden was felt to be regressive even though the zero rating for a number of goods and services, together with the GST credit for low-income earners, meant most low-income earners in fact did not pay it. Unfortunately, it was not seen to be that way, and to beat the GST became and still is somewhat of a Canadian pastime.

I legally beat the PST when I go to Harvey's. I've got some family and I always make sure we buy under \$4. I give them all enough money and that way we don't pay the PST on our \$4. If I go up and pay the whole shot, I do pay it, but that's a legal way of doing it. That is one way. They actually know me in Harvey's now and they all wait for me coming in. It's rather strange.

Value for money is also a talking point, especially when organizations like the National Citizens' Coalition quickly point out government expenditures such as, for example—I've taken these directly from a recent publication that they had—the Prime Minister's Office spending \$840,000 to monitor newscasts and newspaper articles; \$58,000 spent on an examination of what it was like to work for Dominion grocery stores—it didn't say this in there but I have to wonder, if No Frills or Loblaw's had been conducting it, would it have been less than the \$58,000? I don't know—\$500 million spent over 10 years on language training for civil service positions that did not require bilingualism; \$9 million for six constitutional conferences.

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Lastly, as I say, economic conditions have resulted in double-digit unemployment. It offers no hope for future employment, and this bothers me very much, as I'll say a little later.

I'd like to review the provincial government's economic thinking based on the Ontario budget. On page 61 of the 1993 provincial budget, it stated that retail sales tax revenues were down \$549 million; corporate tax revenues, \$556 million; personal income tax, \$337 million; employer health tax, \$153 million. All of this, according to the budget, was attributed to the weak economy.

Go a little further in the budget and what did they do? They forecast tax revenues would be up 6.8% from the 1992 receipts. This makes your job much more difficult in magnitude of measurement, because this included growth in retail sales tax, corporation tax and employer

health tax, and \$1 billion-plus from other revenue-raising measures.

I don't know if they're actually meeting that. I did hear the Premier today say that he was only \$300 million short of his deficit target. I hope it's true, I really do, although even the deficit target scares me.

Solutions to the underground economy: The solutions we suggest are directly specified at the legal side of the economy rather than the illegal side. That includes tobacco and alcohol. I know the committee has already received all the statistics showing tax content on these goods: tobacco and alcohol. If indeed there is a political decision to reduce the taxes, you're going to have a fight with the non-smokers' lobby as well as the Mothers Against Drunk Driving and this type of thing. I don't know. That's not my problem, thank you.

We suggest the major challenge to the underground economy would be improvements in the general economy. You may say to me, "Why do you say that?" I say that because it's rather strange. The underground economy or review of the underground economy has surfaced because we have a poor general economy. If we had lots and lots of money, I have to ask the question, would we be as concerned?

Looking at the improvements in the general economy, this would include growth in industry, resulting in greater profits, greater employment opportunities, higher personal earned income, greater consumption of goods, and taxes. There would be more money coming in. As I say, happiness is a positive cash flow.

The major question however is: How is this done? I don't think this is the committee. We will be meeting with the minister to discuss ideas of how the economy can be stoked to make it a little more vibrant.

However, measures to create economic growth are needed. We don't believe, by the way, that cutting government spending is sufficient. I'm sure it will come as no surprise that we recommend all government spending, federal, provincial and municipal, be reduced substantially. We hear time and time again of the spending cuts finance officials have introduced. However, the efficacy of spending must be completely reviewed. This includes a change in attitude of any elected officials, who must hold tight reins on their bureaucrats.

Regardless of the message that people sent in the recent federal election, we still perceive a lack of understanding by some politicians that a great number of taxpayers are prepared to do with less providing the value received for their tax dollars improves. It might indeed be a step in the right direction if elected officials were to treat taxpayers' money as if it were their own and spend it prudently.

As well as working for the Canadian Manufacturers' Association, I have a business on the side. Actually, we have a saying in my business. Everybody on Friday comes to me and says, "Boss, is the Hip National Bank solvent?" If it's not solvent, they don't have a payroll, or I don't have a payroll I can meet. The Hip National Bank has to be solvent. It's my money, in other words; that's what I'm saying.

I realize that today we live in a much more complex world than the time when I first studied economics, and I don't intend to tell you when that was. It was quite a long time ago. I am probably next to the—I wouldn't like to say how old anyone here is.

However, the government would do well to review and go back to the basic principles of the need for government spending. Government is not there to respond to any call for help for just any interest group in or outside of Canada, and that includes the manufacturing sector as well.

One large step forward by provincial governments would be the harmonization of legislation between different jurisdictions. This should include the harmonization of the goods and services tax—I'm assuming it's still going to be there—with the provincial retail sales tax.

I find it interesting to read of people evading the current GST and the anxiety exhibited by revenue officials. It's always thought that for every dollar spent in the underground economy on goods and services, the government loses 7% of the cost of the transaction. That's not so, as the system—this is the GST—was structured in such a way that the tax is lost only on the last value added. This value added cycle reduces the incentive for blatant tax evasion. Anyone who purchases goods and services has to absorb the full cost of previously remitted GST if they wish to trade in the underground economy. Only GST registrants are permitted to claim GST input tax credits to remove the cost of the GST from their product or cost inputs.

It's also important to remember that the GST legislation imposes a liability for GST on the purchaser, and while you may not be aware of this, we are already seeing aggressive tax assessments being raised by Revenue Canada on erroneous input tax credit claims. We're really seeing a lot of hurt out there, and these claims are mounting to \$40,000, \$50,000, \$60,000, \$70,000, \$100,000 where erroneous claims have been made, and it's true.

With the provincial sales tax being treated in the same manner as the GST instead of as a single-stage tax on the final sale, the province's cash flow would improve due to the tax being levied on all interim business stages and a larger percentage of the tax currently evaded would indeed be collected. Interprovincial trade barriers should also be removed and taxation rates harmonized if people are to shop in the province where they live.

There is a need for greater audit surveillance, and I'm watching with great anticipation to see positive results from the new initiatives announced by the Minister of Finance. While I would be the first to point a finger at additional government hiring, the return on the investment seems to be there, providing the additional personnel do not become permanent once the problem seems to be resolved.

I believe the minister indicated he was hiring 147 people and there would be a return of \$70 million. That works out I think at about \$470,000 an auditor, and looking at what their payroll is, I don't know, but it seems to me to be a very good return on the investment.

I was asked, the fact is, could he hire five times as many and get five times as much in? But diminishing returns kicks in and perhaps that's not the pattern.

I was disappointed when reviewing the Ministry of Finance presentation to see that the tax administration viewpoint focuses only on enforcement, preventing abuse and closing loopholes. Nowhere can I see legislation changes to encourage people to get out of the underground economy because of growth incentives and less government intrusion. I realize that to some this may be a naïve approach, but a start must be made to reinforce previously held ethical values.

Finally, one of the major concerns of business at this time is that in the upcoming 1994 provincial budget, provincial retail sales tax, we are scared, will be extended to professional services. We have been told this is being considered. This will not be a tax on the profession but a tax on those who use these services, including the people you as MPPs represent. It could impose hardships on small business, senior citizens, home buyers, just to name a few, and even though it is perceived the professionals will not involve themselves in the underground economy, it begs the question as to whether cash deals will be made to evade any additional tax burdens.

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There is no doubt that the underground economy is a growing phenomenon in the world. While it will never be completely eradicated, the perception of fairness and value for money spent will go a long way towards convincing those Ontario citizens who are uneasy in dealing with the underground economy to once again pay their fair share.

As I say, don't forget—and this is for the government as well as for business and for people—happiness is a positive cash flow.

Mr Sutherland: I want to go back to the issue of the GST. I think you left some impression that in retrospect you felt the implementation of the GST at that time wasn't necessarily a good idea. You noted that your organization was one of the organizations that pushed and encouraged and lobbied very hard to have a goods and services tax put in to replace a manufacturers' sales tax, also one of the very visible taxes.

We've heard a lot of evidence that the visibility of the tax is a problem in terms of a constant irritant, people being reminded about how unpopular the tax is. I didn't think I quite heard you say, but the manufacturers' association, then, as an official organization, hasn't changed its position on having a goods and services tax? Could you comment on whether visibility or invisibility may make a difference, given the fact that the problem, while there, didn't seem to be as large when we had an invisible manufacturers' sales tax?

Mr Owen: First off, I'd like to correct it if I left you with the impression that I thought it was not or the CMA thought it was not a good idea. I didn't say that. Actually, what I said was that it was an inappropriate time. If you go back to when the New Zealand government introduced their goods and services tax, they introduced their goods and services tax paralleling changes and

reductions in personal income and corporate taxes.

The government of Canada did that two years before it introduced the GST. Had it been at that time, it would have really been a wash. However, it wasn't a wash because it's a case of: "You've done something for me two years ago. What have you done for me lately? You've increased my taxes." That's what I meant when I said it was inappropriate.

Visibility and the CMA: Does the CMA still support the goods and services tax? Yes, we do support the goods and services tax. There are a number of benefits that we get from the goods and services tax. There were a number of problems with the old federal sales tax, not the least of which was that imports benefited from it.

We also had massive administration problems. I know you're going to say we have massive administration problems now, and I'd be the first to duck under the table, and don't throw stones at me on that, but at the same time we did have massive administration problems. Also, our exports were being penalized because we couldn't draw out of the cost of goods sold that portion of the federal sales tax which went on to inputs in the manufacturing.

This also, as a matter of fact, applies now on the retail sales tax. We cannot draw that out. If, for example, we were able to draw out the component of retail sales tax from some of our manufacturing inputs, this would make our manufacturers even more competitive.

You may say, "Well, how many dollars?" I can't say dollars from the point of view that it may be fractions of cents. But when you're looking at magnitude of market share, those fractions of cents make us more competitive in outside world markets. These are the kinds of things.

With the goods and services tax, those impediments were removed and the basic problem that we saw with the visibility—and I certainly voted for visibility, there's no doubt at all about that, because I thought it was the right thing to do—was that every time you go out, you see something in a shop and you go in to buy something you've always loved, "What tax did I pay on that?" This is one of the big problems that you have.

As well, some of the applications that some of the retailers adopt are most unfair. They say, "No GST, no PST." That's wrong. It's illegal to say those things; what they're actually saying is, "I am discounting the product by the value of the GST and by the value of the PST."

But the thing is, people go in and believe they are playing the old Canadian game again. We all thought hockey was the game, especially with the Leafs, although they lost last night. We all thought hockey was the game until the GST came, and boy, it's a real great game to see how you can beat the GST. I've heard so many things.

Mr Sutherland: But haven't people, by their discontent with it, really said, "I want to know what the bottom-line price is when I go to the shelf to pick up the product"?

Mr Owen: I suggest that would be the case when it first came into effect. However, it's like a payroll in that you like to know how much tax you're going to pay. You really don't know what the rate of tax is, and if you're

fortunate enough to have a pay increase, you just accept the tax that's there in the payroll; it's invisible. These are the kinds of things.

People within a little while would accept the tax. This happens all over Europe. I've travelled extensively in Europe and I'm sure that a lot of the committee also has, and we don't find this is happening at all. People accept the price as shown for the product.

Mr Jamison: A comment and then a question: When I talk to the average constituent, yes, there's a feeling about the GST and its timely or untimely implementation. But what people say to me more times than not is that they're not really taxing a product. The thing that really irks them is that they're taxing basically everything, goods and services. When we talk about the manufacturer's tax, the GST, in their mind, really replaced that and placed tax on much more than that: their hydro bill, their telephone, their whatever. That's what they see.

The previous presenters indicated that possibly technology has a role to play in evaluating and discerning some of the tax evasion that's going on out there. I tend to believe that, but I also believe that in the business community technology can be used positively that way, also in garnering information through the reduction of paperwork and centralization; rather than going to two governments and a number of ministries, centralizing the paper flow. Electronically centralizing it can go a long way to identifying, whereas it's very difficult these days to identify where there can be tax discrepancies. What is your opinion on my comment and then on my question?

Mr Owen: I'm glad you asked that question. It's a very good question, especially the last part about centralization, which would help in the collection of information. This is exactly what I'm talking about when I'm talking about harmonization of a sales tax.

We don't want anything harmonized like Quebec, by the way. They've got some wild and woolly ideas of harmonization. What we're saying is that if we were to harmonize the federal and the provincial application, it may even be that Ontario does the collection and then let the feds fight for their portion—I'm sure that would be very acceptable—rather than the other way around.

These are the kinds of things that would be very useful; in other words, to solidify the total rather than trying to hit on everything at once. You have to realize that would be putting it up to 15%, assuming that the 8% stayed constant in Ontario.

Mr Jamison: Even if it were done separately, there would be an effect, in my mind, even if the information was more centrally based rather than spread through ministry upon ministry as far as remittance in one form or another is concerned.

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Mr Owen: I like to believe that the ministry involved in this is the ministry of revenue. I've worked with the ministry of revenue for a number of years, and you've got some fine people working up there for you. I would not say anything other than that. However, I do see leakages off into certain areas, even to the extent of bringing certain programs into the ministry of revenue

which really shouldn't be there.

There was the small business development corporation concept a number of years ago. I think it's still alive and it's housed in the ministry of revenue. When it first came out, I phoned around to a number of manufacturers and said, "Would you be interested in the small business development corporation?" "Yes, we would, because it's money going out into the economy from the government of Ontario. Where do I go?" "The ministry of revenue," and it was a big laugh: "They collect; they don't give." This was the kind of thing.

I think what you're saying is right, that there could be a better rationalization. I think it would take more than this session here tonight to determine where the problems lie, though. I don't see anything wrong with that at all.

Going back to your original statement about your constituents seeing a tax now being levied on both goods and services, yes, that is quite right. However, the original federal sales tax on goods was 13.5%. Right now it's 7% on goods or services. There are a lot of those goods and services, such as health, education, this type of thing, which are what they call zero rated; there's no tax applied on them at all. As well, there is the GST credit which the federal government gives out quarterly, I believe it is, a cheque to those people who can justify, according to their income tax returns, that they do need this money; in large part, for some people, they get all the money back and even more at times than they would have normally paid out in the GST. When you consider somebody who is a low-income earner, they're not going out spending a lot of money on all kinds of fripperies and this type of thing. They're spending their hard-earned money on the necessities of life. The necessities of life are those goods usually which are zero rated.

Mr Jamison: What I'm trying to point out is that the average, midstream taxpayer is saying that the service tax portion of the GST—they can understand the manufacturers' tax, but by dropping that they're paying directly in other areas and it seems to irk them.

Mr Owen: That I can't deny. That's the basis of a consumption tax, though.

Mr Kwinter: Thank you, Mr Owen. I wanted to make a comment first, to tell you that in my experience here there's nothing more permanent than a temporary government employee; that's to your recommendation that having additional personnel isn't a bad thing.

I'm really interested in your observations. You talk about the fact that the unemployment may be overstated and the GDP growth underestimated because of the size of the underground economy. Maybe we are not looking at the right problem. Rather than spending our efforts in trying to eliminate the underground economy, maybe we should be spending our resources and our expertise trying to really determine the size and the impact it really has on our economy so that some of the solutions we're getting involved in may be better directed. Maybe the unemployment rate in Canada is 8% and maybe the GDP is growing by 5%, if we can get a real handle on what is going on. Do you have any observations on that?

Mr Owen: That was basically the point I was trying

to make, Mr Kwinter, that we base our—when I say “we” I’m talking of government in particular. They base their policy directions on the legal GDP as measured by Statscan, and this is one of those things. I just wanted to bring that observation to the committee because I certainly believe that. In some of the reading I have undertaken looking at the measurement of the underground economy, everybody has started with the normal GDP and then made an assessment of what a percentage would be other than. But I haven’t in any way, shape or form been able to put my finger on any specific amount.

As I mentioned to you, even looking at the \$112 billion that I extrapolated out of François Vaillancourt, 16% of \$700 billion, I don’t know what that would be in terms of tax avoidance. I don’t know what it is because I don’t know what portion of that GDP—GDP is all the goods and services in Canada. I don’t know what the labour content would be. As I said, it could well be that some of the lower-income earners would not pay income tax anyway.

So to say it’s \$112 billion in the underground economy, the actual tax burden on that may not be a great deal. But from the point of view of recognizing there could be another \$112 billion on top of the \$700 billion now, that the actual GDP is in fact \$812 billion rather than \$700 billion, should affect some of the thinking of the politicians across Canada.

Mr Kwinter: When we heard from the Association of Canadian Distillers, who said the consumption of spirits has gone down 20% over a period of time, I asked, does that include accounting for the illegal and underground spirits that are on the market? They said yes. It would seem they’re certainly basing their calculations to take into account the impact of the underground economy.

It would seem to me that if we had the right handle on the problem, then the government policy might change. In the last election, we had two very distinct sides of the argument: a couple of parties saying the deficit was the issue and the other ones saying jobs were the issue. Obviously, the people who made the argument about the jobs won out over the people who made the argument about the deficit, where in actual fact it could be that the real problem is the reverse.

What is happening is that government policy, public policy, is being determined on figures that you imply are not necessarily accurate. I agree that unless you get a handle on the number of people who are working in the underground economy, and not just an estimate but a real determination—and you might be able to do it. As you say, with the GST it doesn’t matter whether you’re in the underground economy or not; somewhere in the chain someone has had to pay the GST. You can’t get it back if you’re in the underground economy by the very definition of how you get it back. I think that’s an area that might be worthwhile pursuing.

Mr Owen: I’ve got to agree, because I think the actual measurements are very important all the time. We just don’t know. If we can’t measure where we’ve been, how can we measure where we’re going? I think you’re quite right. Every business has its balance sheet and profit-and-loss statement. They have to know where they

have been, and their budget is where they’re going. So that might be one area, but I don’t know whether I would recommend that you pursue that because I don’t know, literally, how you could pursue it.

I talked to the clerk when I first came in and I said I’m not going to be able to give any figures on this. If you can tell me how to do it, please do. I still think everybody is swimming in deep water, because nobody is prepared to say, “I’m in the underground economy.”

Mr Phillips: My memory may be failing me, but I thought either the Canadian Manufacturers’ Association or the Québec Manufacturers’ Association had put an estimate on this.

Mr Owen: The Québec Manufacturers’ Association is a division of the Canadian Manufacturers’ Association.

Mr Phillips: Have they done an estimate?

Mr Owen: I haven’t seen one.

Mr Phillips: Maybe you could just take a look for us; if you could, I would appreciate that.

Mr Owen: No problem.

Mr Phillips: Your suggestion on supporting greater audit surveillance was interesting in that quite a few members of the business community think that’s what this committee is all about; that is, that we’re going to sick more audit police on the business community and not deal with the fundamental problems. So I was interested in the CMA’s support of more audit surveillance. But my point really is, are there ways we can improve the efficiency of it? We’ve had other people in business saying that they end up with five or six different government auditors in on them. Do you have any suggestions for how we can do it more efficiently?

Mr Owen: There are ways, Mr Phillips. I don’t know how far advanced in terms of having provincial participation in this is, but the federal government—I’ve got to go there because this is where it’s happening right now—is bringing in what they call a single business registration number: one number, one firm. There will be suffixes added to the business registration number, and the suffixes will apply to personal income tax, corporate income tax, commodity tax. In Ottawa they’re looking at an integration of customs, taxation and excise into one department right now, and what they’re looking for is what they call one-stage audits. Now, for the bigger corporation, a one-stage audit could include two, three, 20 people.

Mr Phillips: Mr Chairman, I’m sorry. I think we may have to go for a vote now.

The Chair: Indeed we do. I’m just watching to see how many minutes we have.

Mr Phillips: I just wanted to make a comment to our staff, that is, that I suspect this will be one of the things we want to look at in recommendations.

The Chair: We have lots of time; we have 14 minutes.

Mr Phillips: I’m interested in the observations of the witness on what he understands is happening federally, because my intuition would be that if the committee simply recommends a lot more auditors as opposed to a

simplification, that could be seen as another—blah, blah, blah.

Mr Owen: In Ontario, you would be constrained to corporate and consumption tax. You don't have the problems of customs and you don't have the problems of personal income tax collection.

Mr Phillips: My point would be that we should at least consider some greater coordination perhaps.

The Chair: Thank you very much, Mr Owen, for presenting before the committee this afternoon.

This committee will have the final three presenters here next Thursday morning, and then in the afternoon we'll have our research officer available to discuss how we would like her to proceed. This committee stands adjourned until 10 am, Thursday, December 2.

The committee adjourned at 1803.

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Jeudi 2 décembre 1993

Standing committee on
finance and economic affairs

Comité permanent des finances
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Underground economy

Économie clandestine



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 2 December 1993

The committee met at 1010 in committee room 1.

UNDERGROUND ECONOMY

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. This is our final day in deliberations with regard to the underground economy.

BOARD OF TRADE OF METROPOLITAN TORONTO

The Chair: Our first presenter this morning is the Board of Trade of Metropolitan Toronto. Mr John Clinkard and then Mr John Bech-Hansen, would you please come forward and make yourselves comfortable.

I would just like to inform the committee that as the Chair I'm going to have to leave for private members' public business just shortly before 11. That doesn't mean that the committee won't continue. Someone will take my place for the remainder. I just don't want anyone to be disappointed that I'm not here.

When you are ready, please proceed with your presentation.

Mr John Clinkard: Thank you very much, Mr Chairman. The board of trade appreciates very much the opportunity to address you directly on this very important matter.

As you may be aware, Liberal Party member Gerry Phillips provided the initial impetus for this committee's examination of the underground economy. He indicated that the solution does not lie in increased policing, audit or collection measures, and we definitely agree with that. The approaches to revenue maximization would only be treating the symptoms of the disease and not its root causes. Consequently, our presentation today will talk about some of those causes and hopefully present some proposals for reducing it.

The Chair: If I could just stop you for just a moment, I could ask you to identify yourselves for the purposes of the committee members and Hansard.

Mr Clinkard: My name is John Clinkard. I'm a senior economist with a major Canadian bank and I'm on the economic policy committee of the board.

Mr John Bech-Hansen: I'm John Bech-Hansen, a staff member with the board of trade.

Mr Clinkard: The board of trade believes that a high and increasing tax burden is by far the largest catalyst to the growth of the underground economy. None of the other industrialized countries—that is to say, other than Canada—has endured a faster increase in the overall tax burden, measured as a percentage of GDP, than we have here in Canada since 1980. This trend accelerated significantly after the mid-1980s when provincial governments, most notably Ontario, initiated a less restrictive fiscal policy and actually a very expansive fiscal policy—you could describe it as “tax and spend” perhaps—and this continued under the current government.

According to a recent study by economist Patrick

Grady published in the Canadian Business Economics publication, tax increases introduced since 1990 have added almost \$3 billion, or \$633 per family, to the average annual tax burden of Ontarians. Two thirds of this increase was in personal income tax, which will be specifically analysed later for its role in spurring the underground economy.

Ontario is in the unprecedented situation of having about one sixth of all the unemployed persons in the province being supported by unemployment insurance or social assistance. These support systems, while they are at first glance helpful, don't provide any incentive to those who are trying to move back into the income-earning activities. Rather, under most circumstances, recipients of unemployment insurance and welfare lose their entitlements, dollar for dollar, if they report supplementary earned income. Consequently, there's a strong incentive here to engage in non-reported cash transactions for income-earning activities. It's not surprising if recipients of state support will seek to supplement their income in the informal economy since it provides more disposable income than the conventional economy.

Committee members need to consider what can be done to limit the incentives to engage in underground activity. I think we should turn that around: It's to encourage the incentive to work—what we're saying is the incentive to underreport—so that there's a more positive signal given to people in receipt of these payments to enter the labour force and report earnings.

In an ideal world, lower government spending and lower taxes would be the option which all governments would pursue as the first line of defence against the growth of the underground economy. Actually reducing taxes of all kinds, at all levels of government, would leave more money in consumers' pockets and stimulate strong economic recovery, increase business confidence and spur job creation. But given current high levels of public debt, governments everywhere have limited options for reducing taxes, certainly none for increasing them. Therefore, the only viable alternative for governments today is to cut spending. Doing so, moreover, could help restore the credibility of government with positive consequences for curtailing the growth of the underground economy.

A less effective but none the less potentially helpful policy approach would be to change the mix of taxes, placing greater dependence on those taxes which are less prone to avoidance or evasion. Unfortunately, in the Ontario context it's hard to identify this strategy easily.

Contrary to every other industrialized country, top marginal income tax rates in Canada have increased markedly in recent years. The original purpose of the 1987 federal tax reform was to reduce top marginal rates, and that was done. However, subsequent income tax increases at the provincial level have caused marginal rates to move up sharply. For example, in Ontario the

basic income tax rate has increased from 53% of the federal rate to 58% and surtaxes on personal income have substantially increased, raising top marginal rates to over 52%.

These increases have increased the propensity for all employed persons without source-deducted taxes to underreport income or to conduct business in cash. For some high-earning self-employed individuals, under-reporting cash transactions can effectively double net income at today's high marginal tax rates. There's a far greater incentive to underground activity than is presented by the 7% goods and services tax. In some sense, you've got two things happening here. You've got the high marginal tax rates that hit high income or at least provide an incentive to underreporting among high-income individuals, whereas if we look at the GST it gives the same incentive or has a greater incentive for people at the lower end of the income spectrum.

With an increasing share of employment in Ontario being comprised of small businesses, self-employed individuals and other working people who do not have their income taxes and other charges deducted at source by their employers, increasing dependence on the personal income tax would not seem to be advisable.

Over the last two years, virtually all of the employment growth in Ontario has been among companies employing 50 or less. These companies do not tend to have the, shall we say, sophisticated tax collection and accounting procedures that many larger firms have. A small business that's starting up obviously in its first year is just focusing on hand-to-mouth operation, that is to say, answering the phone, and filling out tax forms, given the complexity of the current system, is just not one of its priorities. This is not to say that they're trying to avoid; it's basically saying that they don't have the resources to undertake this activity. Maybe they report some of the income that they get in taxes, but they don't have time and there certainly is not the incentive there to do a thorough job as happens among larger companies.

Increased dependence on taxes such as the retail sales tax and the GST as well as so-called sin taxes on tobacco are obvious non-starters for trying to increase revenues since this is one of the reasons we're seeing this explosion in the underground economy.

1020

The GST was originally commended as a tax which would be self-collecting, since input credits could be claimed at each value-adding stage of production for taxes paid at an earlier stage of production. The fact that end retailers of goods had to pay GST on all purchases presumably would compel them to charge it on final sales, and generally it does. The flaw in the design of the tax was its inability to provide incentives to providers of services with low material input costs to charge GST to consumers, since their GST credits tend to be insignificant. This has given rise to a large number of cash transactions in the home renovation and other service-oriented businesses.

Also, provincial non-cooperation with the federal government on the implementation of the harmonized value added tax system in the late 1980s has cost busi-

nesses dearly in terms of the administrative burden associated with calculating, collecting and remitting GST and provincial sales taxes. Consequently, dependence on these taxes should not be increased and means should be sought to reduce compliance costs.

Personal income tax and retail sales tax collectively account for about 70% of total tax revenues. The third-largest source, corporate income tax, is currently at levels that are not dramatically out of line with the other major competing jurisdictions, and we don't think they should be changed. Moreover, it's only a modest source of tax revenue for the province, accounting for only 10% of the total. Even if corporate income tax were increased by, say, 10%, it was assumed that it would not affect corporate behaviour, since total Ontario revenues would increase by less than 1%. Their visibility, again, and given the high existing tax base in the greater Toronto area and in the province as a whole, could only act as a further disincentive to locate within this jurisdiction.

Earlier, we stated our support for the view that the solution to the underground economy does not lie in increased policing, audit or collection measures. However, a strong case can be made for governments to publicize, in the strongest possible terms, the outright criminality of tax evasion and the economic harm which results from it.

We envisage something of a much broader scope and higher media profile than the Ministry of Finance's current policy of simply issuing press releases in instances of convictions for tax evasion of over \$10,000. Additional deterrents to tax evasion could also be realized without additional bureaucracy simply by increasing penalties assessed in conviction for tax evasion.

Based on the foregoing, we recommend the following to all levels of government, and particularly the province:

(1) Examine the potential implications of high levels in unemployment insurance and social assistance dependency and the treatment of earned income while in receipt of these entitlements for the growth of the underground economy. Determine ways of redesigning these programs or their interaction with the income tax system so as to minimize underreporting of earned income. It may also be advisable to examine ways of enhancing recipient participation in job training, work experience or job search activities, which will increase re-employability in the formal economy while simultaneously minimizing opportunities for supplementary income earning in the informal one.

(2) Prepare public announcements which proclaim the criminality of tax evasion in the strongest possible terms. Emphasize the economic harm which results from underground activity and warn as to the penalties which will be assessed in the event of successful conviction. These should be designed for consumption by a broad audience. Penalties assessed in the event of successful conviction for tax evasion should be increased.

(3) Although it's not an option to which we are strongly disposed, increased dependence on user fees, deductibles or premiums would simultaneously reduce pressure on the evasion-prone income tax as the main source of funding for public services and would link the

cost of public services more directly to users and virtually guarantee the government the needed revenues. Three examples, for example, are increased student tuition fees, toll roads and annual health care premiums or deductibles paid directly by individuals which might increase revenues.

(4) Reduce personal income taxes to the extent that increasing dependency on the other forms of revenue outlined above would be made possible. Income tax increases have had by far the biggest impact on the average taxpayer of any recent revenue measure undertaken by the government, and it's probably the single largest contributor to underground activity.

(5) The final recommendation, which we feel is probably one of the most important: Harmonize the Ontario retail sales tax with the goods and services tax. As I said earlier, the simplification of the tax system, to make it clear and easy to administer, I think is one of the major impediments to underreporting of this source of revenue. Thank you very much.

The Chair: Thank you very much for your presentation this morning. We have about eight minutes per caucus and we'll start with Mr Phillips.

Mr Gerry Phillips (Scarborough-Agincourt): I appreciate the thoughtful presentation. I particularly appreciate that you've given us some recommendations on things that we should be doing. I think defining the problem is in some respects the easiest part of this.

Let's start on your first one, looking at ways to deal with people who may be on unemployment insurance and social assistance. The Economic Outlook that came out on Monday you've probably had a chance to read, but it is interesting in that I think in 1993 there are about a million people who are either on UI or social assistance. At the height of the recession in 1982-83, the highest it ever got was about 530,000, so it's almost double, even as we are "coming out of" the recession. In fact, a number we all are aware of is that the social assistance case load never dropped in any year, even in the boom times. So it is no doubt a significant problem.

I wonder if there's another way we should be looking at the solution. You say minimizing opportunities for supplementary income. Should we be looking at something a little different; that is, minimizing the penalty for earning supplementary income? I think there's another solution to this, which would be to not penalize people who looked to supplement, and if I took that literally, it may head us in the wrong direction of a solution.

Mr Clinkard: I think the point I was trying to make, or perhaps alluded to briefly, was that if we could make the system—again, right now you have a disincentive to reporting.

Mr Phillips: Yes.

Mr Clinkard: If you could provide a preferential tax rate or a—I think that's what we're talking about, a preferential tax rate, so that those first dollars of extra income aren't immediately hit. If you look at the fact that these are just dollars, if some of those dollars are training dollars so that there's an incentive to change activity towards self-enrichment, I think this is another direction.

Mr Phillips: Okay, because I'm not sure how big this is in the underground economy, but I think that I'd lean more towards that solution.

Your observation is that in your opinion the biggest loss of revenue in the underground economy is personal income tax. I think we hear a lot about cigarettes and alcohol. I agree with you, personally. I look at the revenue from personal income tax. As you point out, personal income tax has gone up \$2 billion in the last three years; in theory, that's the rate that it's gone up. Revenue from personal income tax has dropped by \$1.5 billion. Something beyond just the economy is going on here. Personal income tax has gone up \$2 billion; revenue has dropped \$1.5 billion. There is, in theory, an unaccounted-for \$3.5 billion that goes beyond just the economy. Is that the order of magnitude we're talking, what we would have normally expected from personal income tax and what actually has come in?

1030

Mr Clinkard: First, my sense is that smoking, while it's an important source of revenue, first of all, is declining in absolute terms, and yes, we are pushing some off. But that's not the big deal. Even the issue of underreporting of earnings: We talk about cash sales from residential construction. I don't really consider that all that significant, because if you look at residential construction as a percentage of the total economy, it's about 5%. If you look at renovation as a percentage of that, it's about 1%. We're not talking a large component of the overall economy. So I am agreeing with you that it's the income tax that's the big problem.

Mr Bech-Hansen: I wonder if I might just have a chance to supplement that a little bit, because I think some of your initial concern with looking at the issue of the underground economy was the fact that personal income tax revenues weren't keeping up, for whatever reason. We were talking about this at our committee the other day, and there are at least a couple of other reasons why personal income tax revenue has not been keeping pace which you might not attribute at all to the underground economy.

I think there's a bit of delicious irony in one of them, in a sense, and that is that we have a rather progressive tax system in Ontario. It's gotten more progressive in recent years as surtaxes have been added on. But that's kind of a two-edged sword. While that does increase revenue as people's incomes are increasing, as we know, we have a large number of people who have lost their jobs. I think I've seen some research, in the States at least, which indicates that for the average person who loses a job and then finds another one, they're losing about 25% of their income. That has substantial tax bracket implications here in Ontario. It doesn't just reduce tax income by the amount the person lost income; it drops it by considerably more because of the progressivity of the tax system. It's going to drop somebody into a lower tax bracket.

As a matter of fact, there's an interesting report you might want to look up in the June 1993 OECD Economic Outlook. It's an article called "Automatic Stabilizers." It makes this point quite strongly about Canada, because we

are ranked as having one of the most progressive tax systems in the world at the moment. The effect that has during a recession is amplified in terms of what it does to your personal income tax revenue.

Mr Phillips: My sense is that there's a growing number of people who realize that perhaps the best investment of their time and effort is in finding ways to minimize taxes. They realize that if they can find a way to reduce their taxes by \$5,000, they've just got a \$10,000 increase in pay. There actually is a fine line between the informal economy and the underground economy. My own judgement is that an awful lot of people now obviously are working on their own, working out of their home, writing off the expenses of that. They've invested a lot of their energies into—charitably, it's in minimizing.

Mr Clinkard: Do-it-yourself; it's doing it yourself in a very broad context, I think. We're not just talking about home renovations, but about a whole mix of activities. I would agree, yes.

Mr Bech-Hansen: If I could just make one other observation about the income tax and why the revenue from that might be going down a bit over time, there might be a little bit of a demographic factor as well, I think. There have been some studies I've seen indicating that as we are all aging, the tendency is that we derive more and more income from other sources than employment: a fair bit coming from investment, interest dividends, that sort of thing. That has fairly considerable tax implications. I was just looking at a table of top marginal rates. For employment income, as we know, the top marginal rate in Ontario is about 52.4%; on interest it's the same. But on dividend income, it's 35.4%, on capital gains, 39.3%, and you have more and more people who are deriving a share of their income from accumulated wealth, as it were, and fewer people from employment income. That is primarily a demographic consideration.

I have one observation on that point. The total income from interest, dividends and other investment income has doubled, to 15% of all personal income in Canada from 7% in 1991. That's just something I saw in the Financial Post a short while ago.

Mr Gary Carr (Oakville South): Thank you very much for the presentations. I appreciate the recommendations you came out with and laid out very nicely here.

In 2 you talk about preparing public announcements emphasizing the economic harm and so on. One of the problems we've got with the underground economy, and some of the people who've come here have said that, is that they don't believe any government, of any political stripe, whether it be federal, provincial or municipal, is spending our tax dollars wisely, and that's one of the reasons they're angry.

Mr Anthony Perruzza (Downsview): Except the future Tory government.

Mr Carr: No. I said at even at the federal level, the Conservatives. They're displeased with them; they didn't think they did. They don't think this NDP government does, or the previous Liberal government. They're mad at all political parties and governments and they think

they're all wasting money, and also at the municipal level, school boards and everything else.

So having a public announcement saying you have to pay your tax dollars to be a good citizen, in my mind, whatever amount you spent would be a total and absolute waste. Why did you call for it in your recommendation? I think it would absolutely be useless to tell the public, "You should pay your taxes." I think most people are angry with governments and don't want to pay them because they think they're wasting their money, and in a lot of cases they're right.

Mr Clinkard: You have to link the value you're getting with the price you're paying; to your point, it's to make the benefits of the government programs more evident. The issue, though, is that in those cases where it is, where we do understand that if you want to have a good road system or you want to have the security we need, these taxes are necessary to pay for these programs.

I don't think you can undertake a blanket whitewash of all government programs and say they're of no value, but I think an examination of those that do and linking those to the revenues people are paying for is worthwhile.

Mr Carr: Talking about linkage, I think your third point is good, putting in user fees. The problem with governments—and again I say this not to be partisan towards this government, because all governments do it. Your third and fourth point talk about reducing income tax. The problem is that this government, like a lot of governments, is increasing user fees without decreasing any other taxes; all they're doing is trying to grab more revenues.

I think most people would like to have more of a user-pay system, but they don't see any decrease in their income tax or corporate tax or whatever. It's just increased revenue above and beyond everything else. It gets to the whole issue of what I believe is the problem: We do not have a revenue problem in the province of Ontario; we have a spending problem. That's a fundamental difference with the government. But you're calling for more user fees. I take it, though, that you wouldn't want more user fees unless your fourth point comes in. They have to be linked together and there have to be reductions in income tax; otherwise you would be opposed to any new user fees on anything in the province.

Mr Clinkard: You're absolutely correct.

Mr Carr: Finally, the fifth point I think may come about as a result of the new federal government talking about what to do with the GST and the PST and so on. In our small business committee that went around, we heard a lot about this problem and that they want something done. Because of politics, I don't know how fast we're going to move, because we're probably going to have a year now of studying it again.

One of the things that has come up is how they'd like to see taxes. Business is very concerned that the government will try to hide tax. The GST was very clearly out there and they think that if it does get buried, then ultimately the companies, whatever store, are going to be blamed for the increase. Would you like to see, whatever

happens, the taxes broken down, or would you rather see them hidden and buried in the price of the goods?

Mr Clinkard: As an economist, I would prefer to have the price up front, because this is a price of government and it's visible. I think that was one of the reasons it was put in as a visible tax.

1040

Mr Carr: Yes, originally.

Mr Clinkard: As a consumer, I'm not sure, but my background suggests that we like to see on that shelf the good marked at its price, and we like to see the unit price. The consumer wants this information, and consistent with that, I think the spelling out of the tax is important and should be there too.

Mr Carr: In terms of the harmonization, which everybody has called for, how would you propose we do it? How simply should it be done?

Mr Clinkard: The simple way? Obviously, to minimize resources in terms of a consolidation of the collection services and that the same sources be used to collect. We've seen employment in the collection of the GST increase dramatically, and that's really a non-productive use of resource. Here is a lot of people who are really adding a marginal contribution.

Mr Carr: Who should collect it, the federal or the provincial government?

Mr Clinkard: I think federal, to have consistent collection across the country. That makes more sense.

Mr Carr: Knowing governments and how their bureaucracies are built, do you really think if we actually did that we would see a reduction in any of the provincial people involved in the income tax, or do you think we'd just see the same total numbers even though it's harmonized?

Mr Clinkard: I think you would see slower growth, obviously, reductions through attrition. I'll be happy with that. If I get more, yes, but give me that to start with.

Mr Bech-Hansen: I would just say that somewhere in the past I presume there was an Ontario bureaucracy when we did have a separate income tax, but now we piggyback on the federal one and it remits the funds back to us. I think the sales tax is going to work the same way.

Mr Clinkard: When we talk about interprovincial trade and the facilitation of companies doing business across Canada, to have a consistent system would facilitate that, because as soon as you get individual provincial jurisdictions, you have another set of paper. It just doesn't make sense.

Mr Perruzza: Just a couple of really quick questions. Income taxes and people trying to avoid paying income taxes: When I think about it in my own mind, I ask myself, can a politician evade or avoid paying income taxes? No, it just comes off our pay. Can a school teacher do that? No. Can a person who's working for somebody and has got a regular wage? No, because it just comes out of their pay. Could a reporter from the Toronto Star or the Toronto Sun whose only source of income is that job skirt paying income taxes? The answer is no again.

When you get right down to the bottom of it, who can conceivably avoid paying income taxes? What type of person?

Mr Bech-Hansen: Just a quick observation: How many jobs have you lost in Ontario over the past three years? A great number of those people could be in the position to work on their own and may be doing so, and they're in a position where they can avoid paying it.

Mr Perruzza: So people who are working on their own, who are self-employed, can avoid paying income taxes. That's what it comes down to, right?

Mr Bech-Hansen: Yes, because they're not being deducted at source.

Mr Perruzza: I just want to follow this line of thinking, because I fundamentally disagree with you and I fundamentally disagree with Mr Phillips that that's where the abuse and the evasion is taking place, at the income tax juncture. It's a self-employed person. Would you agree that profits have come down considerably for people and business has diminished considerably for people who are self-employed?

Mr Clinkard: I don't think anybody would disagree that there's a cyclical component to the current situation, ie, when the economy turned down, your revenues dropped, and you saw averaging down in tax revenues. There's no question about that. But as I pointed out earlier, with virtually all the employment in the last two years—the net employment, that is, we're talking—in companies employing 50 people or less, and probably it's even further down, it's probably around 10 or less, the complexity of the current system, the lack of incentive to report, if you can put it off or if there's—you don't have the rules in place, you don't have that automatic deduction, and it's: "Wait a minute, we've got to get customer X satisfied. Let's solve his problem. The government can wait. They're still there." So you're pushing this problem ahead. As the cycle picks up, as maybe you grow, you will gain some of this back perhaps, but it will be slow.

Mr Perruzza: What you're saying is that a self-employed individual can be creative in the way they report their income and the way they extract their income from their business? If you've done any bookkeeping or accounting for small outfits, I think what's readily transparent is that there is a number of rules in place where they can be very flexible in terms of the income they extract. The income they extract generally diminishes as their business activity diminishes, and in order to become competitive and compete with other outfits, you try to cut out the middleman, and that's the taxman.

But I don't believe that happens at the income tax juncture. I think that happens at junctures where they can't be creative with how much income they extract from their business, and that's when they have to go out and pay for things like the GST and sales tax. I believe the fixed taxes that people can't skate around is where the incentive for evasion happens.

I just wanted to get those comments in, and I want to leave a couple of minutes for my colleagues. But I think that's an absolute fallacy, because when you look at the Ontario workplace and Ontario as a whole, there are very

few people who can actually cut out the government at the income tax juncture, and that's people who are self-employed, and they can be very creative under our current system with the way they manage their affairs in terms of their accounting, their income, their loans, carrying their losses forward and backward. I just wanted to get that on the record.

The Chair: Mr Wiseman, you've got about two minutes.

Mr Jim Wiseman (Durham West): I remember reading an article in 1988 that described how it is that some of the biggest corporations in this country use legal ways of not complying with the taxes. What they do is they basically underestimate what their gross earnings are for the year, underestimate by a considerable amount, and send in the taxes on that. And then they get all the lawyers they've got around, when the auditing from the government comes back and says, "You didn't pay enough," and they say, "Oh, yes, we paid enough." They send their lawyers in for two or three years to challenge these, and that's worth their while. That's part of the underground economy we haven't even talked about yet, this kind of tactic at the highest level.

Mr Clinkard: I guess I'm not sure where this income is being hidden, because certainly—

Mr Wiseman: It's not being hidden. They're doing it deliberately. Everything's legal.

Mr Clinkard: When you say it's legal, then I guess I have to say, what is underground? What is aboveground and what is—

Mr Wiseman: Well, it's a form of tax diversion. If you're talking about a moral question here, isn't it immoral for large corporations to do that kind of thing? Isn't it immoral for financial consultants out there in the public to be telling people to put more in their RRSPs because they know they'll be able to hide the interest from it? There are a whole host of things that are going on.

Mr Clinkard: Well, what do you do? I don't mean to be too personal here, but when you say immoral, immoral for whom? Immoral for the person who's trying to guarantee themselves an income in their retirement?

Mr Wiseman: No, when they deliberately overinvest in their RRSP, knowing that the federal government will tell them to take it out without penalty, but they leave it in there so they can hide the interest in an RRSP so it's interest-free.

Mr Clinkard: They might offset that if they have overpaid the government and if they were hoping to get a reasonable investment on the tax revenues they received. Isn't that immoral?

Mr Wiseman: Well, exactly.

Mr Clinkard: No, I mean, isn't that immoral on behalf of the government?

Mr Wiseman: It's the loopholes that have been put there.

Mr Clinkard: Well, I guess loopholes, and we're saying—the morality of this thing I don't think is an issue here.

Mr Wiseman: Sure it's an issue. It's the whole basis of one of the parts of your argument in terms of trying to get people to understand that what they're doing is wrong.

The Chair: I'm afraid our time has expired.

Mr Wiseman: Thanks.

The Chair: You're very welcome. I'd like to thank Mr Clinkard and Mr Bech-Hansen for making their presentation before the committee this morning.

Mr Phillips: On a point of order, Mr Chair: Just on the income tax, it was the Ministry of Finance officials who said they thought the biggest revenue loss was in personal income tax, so if Mr Perruzza's got a problem, he probably should talk to them, because maybe they're wrong.

The Chair: Thank you, Mr Phillips.

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CARPENTERS BARGAINING CONFERENCE ONTARIO ACOUSTICAL AND DRYWALL DISTRICT COUNCIL

The Chair: The next presenters we have this morning represent the Carpenters Bargaining Conference and the Ontario Acoustical and Drywall District Council. If representatives from these organizations would please come forward and make themselves comfortable, I'm going to turn the chair over now to Ms Haslam.

The Acting Chair (Ms Karen Haslam): They're both waiting for one member. Actually, the Carpenters have so many people on their list, if they're only waiting for one member, can't they start without one member? We are looking for the Carpenters Bargaining Conference and the Ontario Acoustical and Drywall District Council. Please take your seats, then. There are four seats there.

Good morning. Thank you for waiting. We're only a few minutes late, not too bad, but we do appreciate you waiting and making your appearance here today.

We'd like you to start by identifying each one of you who is sitting there, and when you are answering a question and a new person is answering the question, would you again repeat your name for Hansard so they can be sure who's talking and who's answering the questions.

Ms Cynthia Watson: Would you like everybody to introduce themselves?

The Acting Chair: Whatever you want.

Mr Rick LeCompte: My name is Rick LeCompte. I'm the secretary-treasurer of the Carpenters Bargaining Conference, Ontario provincial council.

Ms Watson: I'm Cynthia Watson. I'm legal counsel for the Carpenters Bargaining Conference.

Mr Murray MacLeay: I'm Murray MacLeay. I'm the chairman of the employers' side of the Carpenters Employers Bargaining Agency.

Mr Jim Thomson: I'm Jim Thomson, secretary for the Ontario General Contractors' Association.

Ms Watson: We also have with us Mr Don Guilbeaut, who is the chairman of the CBC; Mr Bob McKean, who's the manager of ISCA—that's Interior Systems

Contractors Associations; Mr Joe Lieberman, who's legal counsel for the AAO, the Acoustical Association of Ontario; and also Mr Jim Smith, who's a board member of the ninth district for the United Brotherhood of Carpenters and Joiners of America.

I'd like to thank you for taking the additional time to hear our representations. Basically, we understand you're looking into the crisis with respect to the black market. We're going to focus specifically on the impact of the crisis of the black market on the construction industry.

I think it's pretty telling that we have a group here comprised of both contractor—employers—and the trade union. It's not very often that happens and I think that's indicative of the state of the crisis frankly, of the impact of the black market on the construction industry.

We're looking at a problem where unemployment in the construction industry, and for the carpenters in particular, is 50% province-wide and up to 70% in certain regions, particularly northern Ontario. That leads to a lot of resulting problems, including deunionization etc, and it becomes a bit of a vicious circle because the black market, to a certain extent, perpetuates and magnifies the unemployment crisis, while at the same time the unemployment then causes the need, obviously, for the black market.

From our perspective, the problems of the black market then lead to a number of issues, which again sort of grow exponentially in terms of magnifying the problem, not the least of which, and certainly from your perspective, would be the lost revenue to the government—I'll deal with that more in a moment; it's certainly outlined in the brief—and the resulting impact on social programs.

More importantly from our perspective, we're faced with a problem where what I'll call legitimate contractors, and certainly trade union contractors, are on absolutely an uneven playing field, as against their competitors who are operating in a black market context. That's for a number of reasons and, again, I'll go into a little more detail about that in a moment. I think it necessarily affects the quality of work, which has implications for the consumer, for the integrity of the industry as a whole and certainly for the government, one would hope, as well. Going in hand, obviously, with quality of work and of equal concern, I would hope, are the consequent safety issues that go with that.

Another problem that I think gets overlooked is the apprenticeship program. That is a very serious problem in terms of the future of the industry, because the integrity of the industry—you get your talent and you get the growth of the industry from the apprenticeship program. The apprenticeship program at the moment is in a very serious crisis as a result of lack of funding, lack of ability to attract youth, frankly, to the apprenticeship program, because there seems to be very little advantage to be gained in light of the black market where the bulk of the work is going at the moment.

The apprenticeship program also kicks in to the extent of the uneven playing field I was talking about, because you have union contractors and the trade unions trying to be responsible to what I'll call the integrity of the industry. To that end, they bear certain responsibilities

and assume certain costs, both in terms of finances and investment of time and energy that is not borne by the non-union sector and specifically by the black market sector.

As a result of that, you have a situation where these groups are trying to have some responsibility for the future of the industry. It's that very effort that puts them at an absolute competitive disadvantage as against their black market counterparts; for example, contributions to the secretariat, which are mandated by legislation, frankly, and imposed only on the union sector within the industry. You have the apprenticeship program where, again, the costs are borne by the union contractors and the union equally. You have involvement in a number of occupational health and safety forums, some of which are mandated by legislation, some of which the parties have voluntarily entered into pursuant to their collective agreements. You have pensions and benefits.

They are looking towards the betterment and future of their membership to ensure there's not unnecessary strain put on the social programs. They make sure their members are protected, so there's not an unnecessary strain on pensions and security and social programs later on. It's that very kind of involvement and responsibility that puts them in a position where they're absolutely uncompetitive in the current market.

We have a number of solutions to propose to you, one of which is what we'll call a mandatory registration or a licensing, and that is something that will have to be worked out. There are certainly some differences of opinion to the extent of how far that should go. But certainly that kind of certification system would ensure minimum levels of expertise in a number of areas, which would necessarily lead to increased quality of work and increased safety and would go a very long way to levelling out the playing field, which is one of the fundamental problems we're facing at the moment.

It would also deal with some of the financial stability problems which are currently facing the industry in so far as you have black market employers or contractors or organizations out there that don't have financial stability, which again puts further strain, because somebody at the end of the line in a number of cases ends up getting burned and there's no enforcement mechanism to be able to get those funds back. Unless you ensure some kind of mechanism at the front end to ensure the viability of a contractor in the construction industry, you're going to be left with a problem at the end of the day, which puts an additional consequent problem on our social programs.

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An additional solution proposed, certainly from the union contractors' and the unions' perspective, is that to the extent that the government is one of the single largest purchasers in the construction industry, we feel the government has some responsibility and certainly the ability to make some fundamental impact on sending a message out with respect to the black market. One of the solutions we see is that with respect to government-funded projects, those projects should go by way of union tender. Again, there's some disagreement. Certainly the non-union sector isn't in support of that proposition, but

I think that is the only solution that addresses all of the outstanding issues I've talked about.

Obviously I'm not going to take you through the brief in detail, because you have a copy of the brief. I'll leave that with you. But if I can take you through, we start by dealing with the crisis in the industry, and I think I've outlined some of the issues that we're talking about, one of which is unemployment.

Specifically what you're looking at, with respect to the carpenters, is that the number of man-hours worked has decreased by 55% in the last three years. That is an absolutely significant decrease in terms of the unemployment issue. As I've indicated, in northern Ontario we're looking at up to 70% unemployment of the carpenters. When I say "carpenters," I'm looking at the whole; it's the carpenters, acoustic and drywall and resilient flooring. This results obviously in a severe competitive disadvantage. Part of the level playing field problem comes from, as I'm sure you've heard a million times, black market contractors who are not making necessary contributions to unemployment insurance, workers' compensation, apprenticeship program, Canada pension, employer health tax, and that even whittles it way down; there's no pension and benefits provided and no provincial sales tax. When you look at the whole picture, it creates an absolute imbalance and an impossible imbalance to overcome for what I'll call the legitimate contractors and the union members as against our black market competitors.

As I've indicated, I think that necessarily affects the quality of our buildings. Not to be trite, that has to be looked at. The buildings are a sign of our future. It's social property and I think it's something the government has a responsibility to protect in terms of the future of our youth.

Also particularly of concern to the union and union contractors is that when you allow the black market to escalate in the way that it has, it necessarily has an adverse impact on collective bargaining on a number of fronts, not the least of which is that, as I've indicated, the union contractors become unable to compete, which necessarily means that their collective agreements become useless to a certain extent because you can't get the work and you have the vast majority of your workforce who are unemployed.

Additionally, it becomes impossible to organize. There are no advantages to an employee out there to go to a union where 70% of his workforce is going to face unemployment when he can go down the street and get \$10 or \$15 an hour under the table, not have to pay income tax, which again, as I say about the circle, ties back in. That's loss of revenue to the government, and a consequent increase on your social programs, because those workers traditionally are not covered because workers' compensation benefits haven't been paid, no contributions made in terms of the social programs. When the chips fall down, they're the first people to be using the social programs. In fact, I think you'll find a significant number of people who are engaged in the black market industry and accepting what we call cash on the dash are also at the same time collecting either unemployment insurance or welfare benefits. They're doubly

abusing the system.

We talked about the solutions. How do you stop the black market? I think obviously the key has to be that the government has to take steps to make the black market uneconomical, because currently there is every advantage in the world being offered to contractors who engage in the black market. The government has to take some sort of positive steps to ensure that this is not the case and that at a minimum, as I've said, everybody is put back on, at the very least, a level playing field. That would necessitate making sure that appropriate deductions are made for each of the items I've just indicated, making sure you don't have unions and union contractors being forced to make contributions to the secretariat, to their apprenticeship programs, to all of these other benefits that we've talked about, when their competitors are not in the same position.

One of the solutions, as I've indicated, that will necessarily address that is by having the work go to union contractors, because immediately you're governed by a collective bargaining relationship; unions and union contractors are governed by significant legislation that addresses a lot of the very issues that are avoided in the black market regime. Certainly, both employees and employers, when they're operating within a union context, are aware of what their obligations are.

Another alternative that has certainly been suggested is beefing up the fair wage system that's currently in place, the fair wage schedule. We've included that in the brief as being an alternative, but I can't stress enough, realistically, with all respect, I don't think the government is in a position to invest the kind of money that would be necessary to make that a workable alternative at the moment. One of the inherent problems with the fair wage scheme: The rate currently set is too low, obviously. So that, at a minimum, would be something that would have to be addressed.

But even allowing for an adjustment in the rate, the fair wage scheme does not account for pensions, does not account for benefits, does not account for participation in a number of the programs that I've talked about, including the apprenticeship program, for example.

Most importantly, even if you addressed all of those issues, as it stands currently, there is one individual in all of Ontario who is responsible for enforcing the fair wage scheme. That is a physical impossibility, and the individual himself concedes that there are virtually no steps taken to enforce the fair wage scheme. The input of money that would be required to make that a workable alternative I think would be prohibitive in today's economy. In any event, even if you were to address all those problems, the bottom line is, the fair wage scheme does not address the black market issue, which is the concern that you're facing here, with all respect.

As I've indicated, and I won't reiterate it, certainly there's a portion of the brief here as well dealing with an effective system of compulsory registration. That would be both for the employees—in other words, the carpenters—and also for the contractors. As I've indicated, there are a number of areas we'd deal with that you'd need to address to ensure that there's a minimum level of com-

petence; you would need to ensure a minimum level of safety awareness and safety protection with respect to the job sites, a minimum level of financial stability etc. Those are all areas that would help to put people back on a level playing field.

More importantly, in terms of the cost factor, I think one of the problems is that when people deal with the black market and one of the solutions put forward is to get away from the black market scheme, the immediate response is that the cost is going to be prohibitive. I'd ask you to take a very close look. There's a report that's been included in appendix 1 done by the accounting firm of Dunwoody Ward Mallette. I think the results are very telling because the fact is, in terms of the cost of unionized construction labour, there's absolutely minimal cost between the bids that come in from the non-union, including the black market sector, as compared to the trade union sector and its bids.

Additionally, I think it has to be recognized that even when you're looking at the bids against each other, there's a marginal difference, as I indicate, and there are studies to support that. I'll leave you with a source book that also includes a number of more significant studies and articles on this issue.

Having said that, those figures don't account for the additional cost that, when you're looking at the black market, the government ends up losing again as a result of the lack of funding to social programs, the lack of contributions made to some of these necessary programs that we've discussed already.

Just to be clear, the Dunwoody study indicated that there was a margin in most cases of only 1.9% between the bids. In some cases there was absolutely no difference. When it was brought down in accounting terms, it was a 0% difference, in some cases 0.5%, but in very few cases more than 3%, and the average came out as a 1.9% margin between unionized contractors and the non-union. When I say "non-union," that's not necessarily even accounting for the black market, as I've indicated.

The apprenticeship program I've already discussed.

Another factor that has to be considered is productivity in the industry. I think one of the reasons—and it can't be ignored that you have in the black market significantly lower labour costs, and in some cases as much as 40% to 55% lower wages and overall labour costs.

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Notwithstanding that kind of difference, where you're looking at a 55% difference in the labour costs, at the end of the day, there was considerably less difference in the overall cost of the construction projects between the two groups. That can only be accounted for if you consider that once you get out of the black market sector, you're looking at a drastically increased and more efficient organization, and that is by virtue of the fact that you have apprenticeship programs, you have safety training, you have skills training and you're looking at a workforce that can get in, do their job and get out in a way that is safe and economical at the end of the day.

You'll find that, again, there are articles that deal with that at page 16 of the brief, where it's looking at union

wages exceeding the non-union by 54%, although construction costs were 20% lower on the union job. So I think it's a myth to assume that the black market is in fact a more economical way to proceed.

Just briefly, so that we can allow time for questions as well, to conclude, the underground economy obviously represents a very serious threat and I think the threat becomes more real because the problem escalates when you tolerate a black market industry and allow an unlevel playing field. The unionized contractors—which is happening—and union members are on a daily basis coming into the union offices and indicating that they're going out and joining the ranks of the black market. They're coming in and asking for their welfare papers to be signed off and they're laughing all the way to the bank, because otherwise lawful people are being forced into a situation where the only way to compete is to cheat, frankly.

You're going to end up seeing the demise of legitimate contractors. You're going to see the demise of the Carpenters' union and other construction unions, frankly. That problem is going to be unavoidable, and necessarily with that you're going to see the demise of our social programs and the demise of the integrity of the industry. I don't think that's at all overly dramatic, because with all respect, we're starting to see that happen today already.

So for that reason, I think the committee has to take a very serious look at the situation. As I'm sure you're aware, we've already met with the Minister of Labour and we've also met with Minister Brad Ward to discuss the issue. If you're interested, a much more comprehensive brief, frankly, was submitted to them, because it dealt with issues in addition to the black market. That brief would certainly be available if you're interested to look, as well as the source book, as I've indicated, a copy of which I will leave with you.

Again, just concluding to allow you the opportunity, what we're requesting that the committee look at and include in its final report are the following recommendations:

(1) Absolutely, steps have to be taken to ensure a level playing field between what we call fair employers, legitimate contractors, including the trade union, and black market employers. This can be done either through requiring publicly funded work to be done through union contractors or through a drastic reform of the current fair wage scheme, which, at the current time, is pointless.

(2) You have to ensure that the law is enforced rigorously, stiffening legislation that exempts independent contractors, because that's a huge problem, and that's where the whole myth of the black market is allowed to escalate. They set up a situation where they purport to have independent contractors but in fact they have no tools; they have no business; all they have are their hands.

The term that's now being bandied about, and you'll see it in the source book as well, is "labour broker." "Independent contractor" has a lot of connotations because of the trucking industry etc, but I think the bottom line, so long as you understand the point, is

you're looking at somebody who is offering labour only. Call it a labour broker, call it an independent contractor, call it what you will, but the fact is they are employees who are working in the construction industry purporting to be something they're not, and as a result, avoiding all of the inherent obligations that are being borne by the unionized contractors and the trade union itself and its members.

Additionally, we'd be asking you to recommend the institution of a system of compulsory registration, as I've indicated, both for the workers and for the contractors in the industry.

Unless you have any questions—I'm sure you do—at that point, that wraps up the synopsis of what our concerns are and the current state of the crisis in the industry.

The Acting Chair: By my calculations and because we started late, we have approximately six minutes per caucus for questions. We'll start with Mr Cousens.

Mr W. Donald Cousens (Markham): It's good to see everybody together. It's a good scene you're presenting and we appreciate it. Could you make available a copy of the report that you gave to Mr Mackenzie and Mr Ward? That would be of interest to us.

What is the ratio, even the numbers, of union to non-union members within the industry as we know it today in Ontario as it affects carpenters?

Ms Watson: In terms of the overall numbers or in terms of the numbers—what we also have is a breakdown of the number of government-funded work that's going union as opposed to non-union, which is of some interest.

Mr Cousens: You can give me that. I don't know how many union or non-union members there are. It would be just helpful for me to know.

Mr LeCompte: In 1989 Statistics Canada said that in the province of Ontario there were 65,000 carpenters or carpenter foremen. That could be equated to non-union, union, CLAC, the Christian trades, labour and people slotting themselves, maybe in the Labourers' union calling themselves carpenters, but Statistics Canada said there were 65,000. The carpenters in the acoustical drywall field, carpentry and resilient flooring were somewhere in the vicinity of 15,000 to 17,000 members that we can say are members of the Carpenters' union in the province of Ontario.

Mr Cousens: How many are non-members?

Mr LeCompte: The difference would be of what Statistics Canada said in 1989.

Mr Cousens: What percentage of business do you see going on in the black market, of the total business being done in the province of Ontario? One of the things our committee's been looking at is just how large a market that is. The home renovation industry was targeted as one of those areas. Do you have any sense of how large that is?

Ms Watson: The problem is it's very tough to track down, obviously, because that's part of the inherent problem with black markets. They're not about to come forward and be accounted for.

Mr Cousens: I know.

Ms Watson: Just to give you some sense of the difference, certainly between union and non-union, our information is that a large percentage, certainly regionally, of what I'll call the non-union work is in fact black market work that's going on.

Across the province, overall, 50% of government-funded projects, approximately, are going non-union. But the more telling figures are that certain regions, including Sudbury and a lot of the northern Ontario and more remote areas that are most in need of assistance, have in some cases 96% and as high as 98% of the work that's going non-union, and our information is that a very large chunk of that includes black market as opposed to legitimate non-union contracts.

Mr Cousens: One final thing just quickly, I know that time is limited, in the report done by Dunwoody, it had one reference there and it was BDO Dunwoody Ward Mallette on workers' compensation and they say: "We believe it is safe to assume that the premiums have not been paid" to workers' compensation "by the drywall contractor." That is one of those elements that we haven't really touched on in the committee, but commitment and payment of WCB is an important part of providing government services in the province of Ontario. Is that a common problem?

Ms Watson: It's a huge problem. I'll make sure I do leave a copy as well of the brief that was submitted to the Minister of Labour because we have quite a large segment in that brief that deals with the problem of workers' compensation. As you are well aware, workers' compensation in Ontario is in a bit of a crisis itself at the moment, and we feel that's in large part or certainly in some measure due to the fact that it's not getting appropriate contributions from these groups.

One other thing I should clarify, since you mention the report, because the brief, when I re-read it, was a little misleading to the extent that it suggested the Dunwoody report dealt specifically with black market. It didn't. It dealt with non-union, and if anything, the black market would be even a further step removed. The costs that you see in the Dunwoody report, in terms of loss of revenue to the government, are even more magnified if you consider it strictly in the context of black market as opposed to non-union including black market. I just wanted to clarify that.

Mr Cousens: Okay. The WCB thing is one thing we have to really look at.

Mr Thomson: It's very hard to establish the leakage for WCB, but it is very substantial in our industry.

Mr Cousens: That's certainly something that I appreciate your raising, and more information on that would be very helpful.

Ms Watson: Finally on that as well, I think it ties in with the WCB. Statistics show, and unfortunately in Canada the Workers' Compensation Board does not break down union versus non-union, but in the United States we have studies that show that union workers are significantly less prone to industrial accidents than is the case with their non-union counterparts, and I think that's an

interesting study and you may want to look at that in conjunction with the workers' compensation issue, because the two go hand in hand.

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The Acting Chair: Thank you. Right on time. I appreciate that.

Mr Norm Jamison (Norfolk): Thank you for your presentation. I'm really interested in what you had to say about the percentage or the number of people who are going underground at this point in time within the building trades, especially around renovations and situations like that. What percentage of the unemployed carpenters or drywallers or whoever would you think at this point would be participating in the underground economy?

Mr LeCompte: I can use an example in an Ottawa local, 2041, which is the drywall local. There are approximately 700 members in that local and right now there are approximately 300 who are working out of the 700. That's union now. This is a union local, but there are 150 to 200 who are on the books but we don't know where they are. In other words, these people are purporting to be unemployed. They're union-dues-paying members. They come in and pay their dues and they're covered in dirt. They say, "Well, what are you doing?" "You know, I've got to live, I've got to eat."

One of the things that is very common out there is the fact that the deals are being made on the jobs. As we pointed out, good working relationships with the contractors are being forced to make deals with the membership and having to actually breach the collective agreement in order to survive. That's the shame of it all. The good, stable contractors for years are now having to resort to an undermining of collective bargaining. As we said to the Minister of Labour, if we took the contractors to the board every day on a violation, you'd have to build a new 400 University Avenue to keep the grievances going.

Mr Jamison: That's an interesting comment. I think in practical terms, you have an idea of what's going on there and I think you've described that.

In terms of the union/non-union proposal that you've put forward, do you want to expand on that? I'm not sure exactly what you mean. I do understand that free, unfettered business is exactly that, the underground economy, but there's a great push at this time to look at the small business community, and many of your members are that, streamlining paperwork and doing all those kinds of things to help that situation out.

As we move towards that, I guess the question is, what's the union/non-union situation and how does the government fit into that as far as making the small business person more able to cope with the abundant amount of paperwork that's out there?

Ms Watson: Dealing with that for a moment, there are two comments I have to make. One, you mentioned about the crisis, particularly with respect to home renovations. There's no question that is an area of considerable crisis, but we can't stress enough that the problem goes well beyond just the home renovation issue.

Frankly, as I've indicated, the union contractors and

the trade unions, on very large-scale projects, government-funded projects, the hospital and education sectors particularly, we're seeing an absolute increase and rise in the black market that's going on, and the untraceability of that kind of work. So the problem goes well beyond just home renovations at this stage. We stress very much that in terms of your recommendations, try not to just focus on that, because the problem has become much more far-reaching.

In terms of the union/non-union split—and to be fair as well, certainly some of the contractors here represent both union and non-union, I have to be fair about that—our suggestion has been, to the extent that the government can control its spending, ie, government-funded projects, we think a very reasonable solution is, on government-funded projects, that work go by way of union tender.

As I've indicated, in a lot of regional areas, up to 98% of the work is going non-union, and in some places there was a 0% to 0.5% margin in the difference between the two bids. It's not our intention to say everybody in the world has to go union or a situation analogous to Germany, and I'm sure the contractors would be biting my head off if I tried to do that. That proposition is geared towards government-funded projects and to the extent that the government can control it.

By the same token, I think there needs to be a greater education and getting rid of the myth that union is significantly higher cost than non-union because the facts just don't support it, as indicated in the studies.

The Acting Chair: Thank you. Mr Wiseman, you have a minute and a half.

Mr Wiseman: I'm curious about your idea of a registry and the reason for that is that I had a non-union construction company phone me really angry about the fact that they could not bid on a job at Queen's because it was union. If you've got a legitimate non-union construction company doing everything by the books and by the rules, would the registry be able to allow them, if it was constructed in some way, to also bid on government jobs in your scenario? Because I can just see the phone now and all the lights are ringing.

Mr MacLeay: You can bid on government jobs now as a non-union contractor. There's nothing that says that you can't.

Ms Watson: If they stayed under our proposal.

Mr MacLeay: Under our proposal, it wouldn't change.

Ms Watson: We've got two proposals. The registration proposal is separate and apart from—I mean, we would like both ideally, but you can certainly separate out—if there's concern about the government projects going union, the registry system stands separate and apart. While my friend and certain people don't necessarily support the Quebec model, I think it gives you some idea of the kind of issues that can be addressed including, as I've indicated, mandatory company identification which improves enforcement. This would all apply to non-union/union.

Our point is then everybody is on a level playing field.

So that would address the concerns of your non-union contractors. They would have to ensure that there's work description, they would have to post a bond. This is under that system. We're not suggesting necessarily that—well, we are, but not everybody here is suggesting you go that far. Technical, level qualifications, they have to show building site safety qualifications, financial qualifications, solvency criteria etc. That kind of system I think would go a long way to putting people on a level playing field.

Mr Monte Kwinter (Wilson Heights): I'd like to just follow up on this issue of the union/non-union. While you were making your comments I was sort of reading through your brief and I got the feeling—I may be wrong—that you were equating in many cases non-union to black market. It was like the union was on one side and everyone else was in the black market. As I say, that may be a misconception on my part, but when I read through it, I got that feeling.

The other concern that I have is that by your own figures, you say there are 65,000 as of 1989 registered as people in drywall, resilient flooring, carpentry, and of that there are about 15,000 union members. So it means about 25% of the total workforce in those sectors of the construction industry are union and 75% are non-union.

It would seem to me that if that were the case, then the work that was awarded should be awarded sort of on that same proportion, that you'd wind up with union members getting about 25% of the work and non-union members getting about 75% of the work. In your comments you seem to feel that isn't quite the way it should work.

Mr LeCompte: Maybe I should clarify this as well. The 65,000 number is equated to carpenters and carpenter foremen in the province of Ontario. The 15,000 number that I'm mentioning is in the ICI sector, in other words, the commercial sector. It does not account for the residential sector. The Carpenters' union, in all fairness, is not very heavily organized in the residential sector. I would purport to say that a very large number of those carpenters or carpenter supervisors were in the residential sector.

To give you an exact figure of non-union or black market in the commercial sector would be a very difficult thing to do. Obviously that's what this secretariat is designed to do in the future, to try to get that statistic. But it was a little misleading; that 65,000 is a full number of carpenters and that was at a period of time when the residential, obviously in Toronto and in Ottawa and certain areas, was just booming. A lot of those people would be in the residential sector.

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Ms Watson: I think it's also important to note that of those 65,000, part of the problem is it ties back into our registration system that anybody can call themselves a carpenter right now. The vast majority of the 65,000 would be people who have absolutely no minimum level of qualification.

I could walk out on the street and say, "I'm a carpenter," and set up a business, frankly, and start purporting to build houses at the moment. That is part of the funda-

mental problem in terms of safety etc. There's no mandatory licensing or registration and a lot of the people who are counted in that figure are not people who are otherwise qualified.

Just to clarify, I think it is certainly a misnomer or a misreading; there is absolutely no intention on our part to suggest that non-union equals black market. The initial brief that was drafted dealt very much with union versus non-union and only a portion of that brief dealt with the issue about black market. Our concern is, it's very difficult once you get into the non-union context to control the black market, whereas that problem is not the case within a unionized environment.

There are a vast number of absolutely legitimate contractors out there who operate on a non-union basis. It's becoming more and more difficult for people to do that, both unionized and non-unionized, because it's impossible to compete. That's why you'll see interchangeably throughout the brief as well we talk about fair or legitimate contractor versus black market as opposed to union versus non-union.

Mr Kwinter: If I could also get a reaction to something that has been sort of gnawing at me all through these hearings, we heard from the liquor board that there is more illegal wine being sold in Ontario than there is legal wine. We hear that the largest industry in Ontario at the present time is cigarette smuggling where effectively they're making \$1 million a day.

We hear about your example when you said someone came in to collect his unemployment insurance and he said: "I'm dirty. I'm working. You know, I'm making out." I feel that unless we get a handle on this, we may be operating on misconceived numbers. Our unemployment rate may be considerably lower than the approximately 11% that is given, because all these people are working. They're just not reporting their income, but they're working.

The gross domestic product of Ontario may be considerably higher because all these guys are doing things. They're doing economic activity; they're just not reporting it. Yet governments and other organizations are working to the numbers that they've been given, that our economy is only growing by about 2.4% a year, that our unemployment rate is at 11%. Do you have any reaction to that?

Mr LeCompte: My understanding is the people with Statistics Canada, when their unemployment insurance has run out, they're no longer a statistic. That's my understanding first of all. There are a lot of carpenters in the province of Ontario who no longer have unemployment insurance—none. They're on welfare ranks or they're in the underground economy.

For an example, our man-hours from 1990 to the present are approximately half of what we have. The unemployment in the local unions, as I said, there are 50%, in some cases 60% and 70%, unemployed. They have no unemployment insurance. They have nothing. Where are these people going? They're going either underground or the figures that you're asking, 11%—well, you're no longer a figure if you're not on the ranks of unemployment.

The Acting Chair: I'm sorry to cut you off, but we are into a crunch and we do have people waiting to appear. Thank you very, very much for your presentation. If you'd like to leave anything that you want to leave with the clerk, I'm sure she'll share it with the committee at a later date.

ONTARIO CONVENIENCE STORES ASSOCIATION

The Acting Chair: Do we have representatives from the Ontario Convenience Stores Association? If they would come up and take their place on the chairs. Mr Pottow and Mr Egerdie. Do we have Mr Pottow? Great. We have approximately 25 minutes, gentlemen, and in that 25 minutes if you wish to answer questions, then you should judge your time accordingly. Would you introduce yourselves with your names.

Mr Russ Egerdie: I'm Russ Egerdie. I'm the executive director of the Ontario Convenience Stores Association. With me is Geoff Pottow, also a director of the association. Being part of the crunch, we will certainly move right along.

The underground economy: How big is it? What is it costing Ontarians? Our association would like to address only a portion of that, but it is a major segment, and that is tobacco smuggling in contraband tobacco.

You have our brief, which has been circulated to you. I hope you notice that it is a brief brief; it's only four pages. Perhaps we can make our discussion of it that brief as well. It's only four pages, but it deals with a massive amount of money, a tremendous amount of dollars, both sales dollars and tax dollars. There have been two additional pages handed out to you, which we'll refer to as we go along.

On the first page of our brief, the title page, there is a typo. About six lines from the bottom, it refers to "five million untaxed cigarettes." That should be "five billion." I would appreciate it if you would make that change.

Five billion cigarettes a year is 25 million cartons, and that's almost one tractor-trailer load entering the province of Ontario each day. That tractor-trailer load generates a profit of almost \$1.5 million to organized crime networks each day. So this is the magnitude of what we're involved in here.

We, the members of our association, are vitally concerned. We're concerned as Ontarians, we're concerned as Canadians and we're certainly concerned as spokespeople and convenience store operators. We care about our stores, the 60,000 people who work in the stores across Ontario and the 60,000 family units whose bread on the table depends on the continuation and prosperity of those jobs.

Who are these convenience store operators? Well, he's the one who looks out of his store window at the van parked across the street and sees that someone is selling cartons of tobacco out of that van to a lineup of people waiting to purchase. This is fact. The convenience store operator is the one who lives in a high-rise and finds out that the tobacco pusher is taking orders door to door. He takes your order this Tuesday; he delivers next Tuesday—and, by the way, he'll take your order for illicit liquor as well. The convenience store operator is also the

one whose son comes home from high school absolutely marvelling that this student he knows in the school is selling smuggled cigarettes and bragging that he makes over \$1,000 a week.

This is the type of thing we're talking about, and that's who these convenience store managers and owners are. They see their business falling away day by day, because tobacco is part of their sales volume. Then they lay off an employee and they make up for it by working a few more hours themselves. They see armed robbers more interested in cartons of cigarettes than in cash, because there's not much cash in the till but there are a lot of cigarettes behind the counter. They are concerned. They're vitally concerned, they're vitally worried, and they're looking to you folks in government and saying, "What are you going to do to help?"

Education about smoking and smuggling is important, but unfortunately it is not the answer. When I say that, education should continue and should be stepped up, but it is not the answer.

Tough enforcement laws and tougher penalties are also very important, and we're very pleased to see Mr Laughren proposing to increase those, but they in turn by themselves are not the answer. There is too much illegal profit to be made in this trade by the underworld for those two to have anything other than a marginal effect. This will not be stopped until most of the profit is taken out of it, and I underline every one of those words.

People refer to the province of New Brunswick, which not too long ago reduced its tobacco tax by 50 cents a pack and said that didn't cut out the illicit tobacco and therefore cutting taxes doesn't work. Well, with all respect, I don't think you send a peewee to do an NHL job. Fifty cents a pack is only \$4 a carton, and when you're talking about \$50 a carton in the store and \$27 a carton from the guy who knocks on your door on Tuesdays, \$4 a carton at 50 cents per pack is not going to even touch the illicit trade in terms of volume. Tax reductions are required. They're required by Ottawa, they're required by Ontario and they're required by every other province. This is the only way it will be solved.

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Many people have referred to the situation in the 1920s with Prohibition in the US. This is a—I was going to say "microcosm," but it isn't that small. It's a significant parallel to what went on then, and we all know what the solution was to the smuggling and the growth of organized crime in the US fostered by that particular situation.

Tax reductions will not increase smoking. Anyone under age can already get tobacco at \$3 a pack illicitly, and, as it said in an article I'll refer you to in a moment, they can get it there easier than they can through the legal channels, where age is asked for.

Tax reductions will reduce crime. If the tax reductions are significant enough, it will wipe out this illicit trade, and it will also stop the disrespect for the law. I think we're raising a generation of people—I cited a high school student example. I don't think too many students in that school aware of this have too much respect for the law and the way it is being flaunted. Certainly, major tax

reductions will kill this cancer which is eating at the very vitals of our society.

We look to the government of Ontario for leadership, and we look to the government of Ontario for leadership quickly, really quickly, because this thing is growing by leaps and bounds. It is increasing exponentially even as we sit here.

This is out of the latest issue of Maclean's, which I picked up in the dentist's office earlier this morning. It is the latest issue, December 6.

Mr Phillips: The dentist has the latest issue?

Mr Egerdie: I couldn't believe it either. Usually it's 1991. At any rate, this is the latest issue of Maclean's. There's an article in here, "Up in Smoke."

Interjection.

Mr Egerdie: Let's put it this way: I didn't pay for it. At any rate, I certainly recommend this to you because it echoes in spades what I have just said in the last few minutes.

I hope you do not feel that I am being melodramatic about this. This is truly a critical, critical item. There's only one way to stop it, and that's not with 50 cents a pack: These are major tax reductions by the provinces, major tax reductions by Ottawa. I'm sure you're aware that the province of Quebec has already approached Ottawa, saying, "We'll cut our taxes 75 cents a pack if you, Ottawa, will do something." They're considering that now.

I suspect that one year ago the people in the province of Quebec would have recoiled in horror at even the thought of a tax reduction, but, ladies and gentlemen, in Montreal today they estimate the sale of illicit tobacco at 70% of total volume. Ontario was 17% in 1991. It was about 25% last year. It is now estimated to be between 30% and 35%. I submit to you that we will soon be in the same group as those folks in the province of Quebec.

Action is needed, and needed desperately. Thank you for your attention. I hope I've been brief.

The Acting Chair: We have approximately 15 minutes. That means five minutes per caucus, and I'm starting with our caucus.

Mr Perruzza: Really, it's just one question that I want to ask. I know that you focused basically on cigarettes, but I see here you're the Ontario Convenience Stores Association. I want to ask you, convenience stores are really a cash business, a cash sort of enterprise, right? You go in and it's \$2 and \$3 and \$5 purchases and 50-cent purchases, and that kind of thing. Would you support more stringent accounting for the amount of cash, or the enforcement of a system that would force convenience store owners to more accurately report the income and the sales that they actually generate?

A case in point: I don't know if either of you have been to Italy, but every time a transaction takes place, the store owner or the person who's running the outfit is obligated to hand to their customers a receipt, and they both at that point have an obligation to that receipt. They have a whole finance department which can check the receipt on the customer end and can check the receipt on

the entrepreneur's end, let's call it. They both have to take that receipt and that accounting far more seriously than I think we're forced to do here. Would you support that kind of initiative?

Interjection: It's paperwork.

Mr Perruzza: It's not paperwork, as my colleague here says. It's really a cash register that's serial-numbered and can actually be looked at and is looked at on a far more frequent basis than what we have here in Ontario and in Canada, quite frankly.

Dr Geoffrey Pottow: May I address that? Most of our membership are chains, and of course we get audited by the provincial tax department, because we record all our information. As you know, there's a very simple paper trail from where you buy your cigarettes. They know how many cigarettes you buy, how much pop you buy, so there's an easy auditing paper trail to follow that. The auditors do that.

In the case of the independents, again this is where you lose control of the economy and lose control of your tax, because when they go and buy it from the smuggler and then sell it underneath the counter, a lot of these independents, the only way they're stopping going bankrupt is to turn to the underground economy.

We have a large chain of stores. My purchase price for a carton of cigarettes is around \$40 a carton. How do I compete if I'm an independent buying them? I've got to pay a wholesaler some profit and then I've got to carry that inventory. I've got to guard against it being stolen, so I have to have some reserve to look after my loss when somebody breaks in and steals that carton. How do I compete now when a man comes up in a van and says, "How many cartons would you like at \$25?" I put it to you that if you're an independent businessman going bankrupt, that's an awful hard thing to walk away from.

Mr Perruzza: So what you're saying is you're confident that under the current rules and under the current system, convenience stores are reporting very accurately at the end of the year their total sales.

Dr Pottow: I'm saying that they're reporting their total sales of legitimate sales, yes. I'm also saying that non-chains—because only the chains get audited; you don't have enough tax auditors to audit every mom-and-pop store around—the only reason they're surviving against these smugglers is to run a cash business on the side with the underground economy. I put it to you that you could not police it. If the whole of the tax department just looked after convenience stores alone, there wouldn't be sufficient people to police that.

Mr Perruzza: How do they police it in Europe?

The Acting Chair: Mr Perruzza, I'm sorry, but that uses up the time. I apologize. You could speak to him later.

Mr Phillips: This sounds even more serious than we've heard before in that it's potentially running the risk of putting honest business people in the position of either going under or becoming dishonest. Am I overstating?

Dr Pottow: In the last year we've closed approximately 50 stores, and in the last two years we've closed 100 stores. I predict that we will increase that rate in the

next two years, because we cannot do business when a product that used to be around 28% of our category is now down to 20%, and by next year it will be about 15%. We cannot continue doing business, offering employment to these people and paying the rents that we pay. So as these stores come due we close them, or we actively close them. We're basically being driven out of business by smugglers. It's as simple as that. We've been in business for 37 years.

Mr Phillips: So it's literally bankrupting—

Dr Pottow: Independents are worse.

Mr Phillips: The solution of reduced taxes is always challenging for a variety of reasons, and I think your brief says that's the only solution. Are there other things that could be done? Imagine, for example, if you had a package of illegal cigarettes in your hand that was clearly distinguishable. Would that be a solution?

Mr Egerdie: It currently is.

Dr Pottow: It is now.

Mr Egerdie: It has a yellow wrapper.

Dr Pottow: They have a band around it which says "Not for sale in Canada."

Mr Phillips: Doesn't that come off right away?

Dr Pottow: You can take it off right away, but if you're talking about the wholesale business, people will not buy even a smuggled cigarette that has the cellophane removed because it could be stale. Within a week of removing the cellophane, the product goes stale. It's like buying a scalped ticket. You want to make sure it's for the game and you're going to get a seat. You want to make sure that the cigarette is a fresh cigarette.

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Mr Phillips: I'm just thinking, I as an individual have that pack in my hand and once I take the yellow off, it's not—would that be of any assistance?

Dr Pottow: The point that we're trying to get across is that if you accept, as we are convinced, that at least 30% of the market is underground, and it's probably going towards 50%, then a 30% tax reduction is revenue-neutral. If by reducing the tax 30%, federally and provincially, you could stop the smuggling, then you would collect tax on 100% and you'd get the same amount of dollars.

Mr Phillips: What does that mean for the retail price?

Dr Pottow: The average retail price would go up, of course, because you would be selling it, retailing, through legal stores and collecting tax.

Mr Phillips: But if you reduce taxes by 30%, do you get it close enough to smuggled that you could legitimately say that kills the smuggled market?

Dr Pottow: That's right. We then face a bigger problem, because we now have such a big distribution setup. The distribution channel of the smugglers is better than the manufacturers of cigarettes. They have easier access to the illegal market than the manufacturers of cigarettes have to the legal market.

What's concerning me is that even if you nip this problem now by decreasing taxation, there's such an enormous crime syndicate in place that they will start

getting their cigarettes by knocking off the local Mac's or Becker's store, because they will want to find this cheap product. So we will be facing a much harder thing of stopping the break-ins then.

Mr Wiseman: You can sell it cheaper if you steal it.

Dr Pottow: Yes. The terrifying thing I see is that it's just growing. This graph is frightening to me. This is 1992, and 1993 is up here somewhere. We're just quoting these figures. This is put out by an accounting firm that checked all the export figures and so forth.

Mr Phillips: Your last point seems strange to me: if we reduce the taxes, then we increase crime or something.

Dr Pottow: I can control break-ins. I can put alarms in. I cannot control smuggling. I don't think the Canadian army can control smuggling. They have better weapons on the reserves than the army's got, more modern.

Mr Carr: Thank you very much for your presentation. It's certainly a very difficult question and something you're facing every day.

I was just interested in some of the measures that were introduced by the Minister of Finance, the recent ones this week. What are your thoughts on what he's proposing to do? Do you like it? How much of an impact do you think we'll have on it?

Mr Egerdie: There are three items that come to mind. The first was to eliminate the sale of tobacco through pharmacies. This was in the newspapers. I believe it was about three and a half years ago: It was actually the Ontario Pharmacists' Association that passed, as one of its own association regulations, that it was going to get out of the tobacco business in three or four stages. So in fact what the government has done is simply carry through on a resolution passed by the pharmacists themselves. That doesn't seem to have made too many of the papers within the last few weeks.

The second point is the elimination of coin-in-the-slot cigarettes. That's an extremely minor part of the market. The industry feels it's something in the order of 1% of sales. I don't think that is an important part of it. I can't really address that.

The third point was to greatly increase the penalties for having illicit tobacco. I believe the cutoff was 50 cartons. I'm recalling from memory. I think 50 cartons is a massive amount of tobacco to have within your possession if you are not a retailer or a wholesaler of a legitimate nature. I'm not sure I think 50 is low enough.

As far as the penalties are concerned, I'm recalling from memory that, for example, for selling tobacco to a minor, I think the minimum penalty was something in the order of \$100 and the maximum was \$25,000. They have increased that maximum to \$75,000. That should be looked at carefully, because I think for anyone who has been charged and convicted under the old system of fines, I suspect—I'm not sure of this—that the fines would be pretty close to the \$100 rather than the \$25,000. Therefore, increasing it to \$75,000 is really more for appearance's sake than for actual effectiveness. Does that answer your question, sir?

Mr Carr: Yes, that was very helpful.

Dr Pottow: If I could quickly add to that, I think it's admirable that they enforce the police to be able to charge people who are openly flouting the law, but I think the problem is much deeper than that. I think it's a small step in the right direction, but the only way to eliminate the violence and the whole smuggling is to get it closer to the US price. You have Clinton proposing a tax increase, and with the low dollar, it's conceivable now. You could do it in a revenue-neutral way.

The Acting Chair: Mr Jamison, you're in luck. There's two minutes.

Interjection.

The Acting Chair: Mr Jamison is begging me for one quick question, Mr Carr. Would you like to share your time?

Mr Carr: Yes, I'll share.

The Acting Chair: That was very kind of you, Mr Carr.

Mr Jamison: I'd like to thank Mr Carr. I represent a tobacco-growing riding, Norfolk, and there's a tremendous impact because of this. But the question I'd like to ask you is, in your mind, at this point, how many of your own normally law-abiding members are participating in selling the product illegally?

The reason I ask is that just yesterday I ventured into a corner store, and I am a smoker, and there was a lineup of two or three people at the counter. Two of these people were buying cigarettes and there was an obvious transactional difference between mine and the person before me in the fact that I bought cigarettes off the shelf with the yellow band on them and the two people who preceded me received their cigarettes from another location around the counter with no similar markings on them. I understand the pressures on your people, but what degree now is the participation within your own membership?

Dr Pottow: First of all, we should clarify that our association is primarily made up of the chains—Becker's, Mac's, Hasty Mart, Variety Food Fair—and I would say the amount going on there is relatively minimal, because we're looking at, last year we lost \$5 million. This year we've done drastic price changes. We look weekly at the sales decreases, and if we see a store whose sales decreases are in excess of the average, then we check it with our own auditing staff. So within our chain, I don't think much goes on.

I'm with the Becker Milk Co and we have a dairy and we have other things to support us, but of the independents, I would estimate that at least 50%—a lot of those independents—are using the underground economy. In all honesty, it's hard to compete with them, but you can sympathize with them, because that's the only way they can get any business.

Mr Phillips: Have you reported—

The Acting Chair: I'd like to thank you very much for appearing before the committee. We do appreciate it. It's been a very interesting brief.

Mr Wiseman: Sounds like that's the price of being an MPP.

Dr Pottow: Just on that reporting note, we're talking about the fraud hotline. I think there could be a similar sort of thing with the police with smuggling, because as a business I burn when I find out that a recognized establishment like a local golf course I went to blatantly sells smuggled cigarettes across the bar. When it gets to that proportion, I will be happy to turn these people in, and I think a lot of other legitimate operators would be too, because they're seeing their businesses going bankrupt, basically.

The Acting Chair: Thank you. I do appreciate your appearing here today.

Before the members rush off, I'd like you to take a look at your resources. You should have two resources in front of you, Proposed Outline: The Underground Economy in Ontario, and the other one was Summary of Recommendations on the Underground Economy. Perhaps you'd look through the two of those before this afternoon at 3:30. We'll be discussing those this afternoon.

This committee will stand adjourned until 3:30.

The committee recessed from 1201 to 1536.

The Chair: The standing committee on finance and economic affairs will come to order. Having heard a comprehensive set of deliberations over the last few weeks with regard to the underground economy, at this point it's up to the committee to make some recommendations and present a report to the House. If anyone would like to make any opening comments with regard to that, the Chair is in your hands.

Maybe our research person, Elaine, would take us through what she has detailed in some of these reports she has already made available to us. We would appreciate that.

Ms Elaine Campbell: The members have before them two documents that I have prepared. One is a proposed outline for the report. The second is a summary of the recommendations that were made by the various witnesses who appeared before the committee over the last month or so.

The proposed outline is very much that, a suggested structural outline with an introduction, a section on definitions, contributing factors, measurements, reasons for concern, as well as some corrective actions. Those sections have been broken down further into subsections. I'm open to any suggestions as to what else could be done.

Mr Phillips: That was a good start, but I have some suggestion; some may be some nitpicky things and others more important.

My logic flow puts "Size of the Problem" ahead of "Contributing Factors." That would be my own personal preference on this one. What I think we have to be careful of is assuming it's just the three things. The net impression I got from all the witnesses was that, first, there's a fine line between the informal economy and the underground economy and that probably both of those things are contributing to lack of revenue—one is completely legal and there's nothing wrong with it—and that in some respects we focus so much on the tobacco that we may ignore some other things.

I think the first thing on which we could do the public a service is to begin to scope out the magnitude of the problem, of the situation. I think we heard a range of opinions, from 3% of the GDP to 20%.

Mrs Karen Haslam (Perth): Could I add something? It's also the difficulty in getting a handle on how big it is. That came across time and time again, that they could make estimates but it was such a difficult thing to make estimates on. Maybe we can add that too, the difficulty in that whole process of estimating how big it is.

Mr Phillips: I thought one of the more—they were all sensible, I guess. But one of them, as I recall, was the Quebec professor who said you almost have to figure it out sector by sector, that that will take some judgement.

In fairness to the research staff, you are essentially one person, or two people, trying to deal with something departments of economics have spent years dealing with, so I think we have to be realistic about how much we can achieve.

In any event, I hope we can scope the thing out and reach some conclusion on the range it might be, on how you can begin to get an order of magnitude on it. Maybe we should touch base once again with the Finance people, because I think they had said they would get back to us with some of their justification on the revenue side. For example, I think you can marry lost tobacco revenue with some estimate of tobacco consumption and begin to say that over the last three years tobacco revenue has dropped, and you would have expected it to have dropped due to the number of people smoking.

Anyway, chapter A, to me, is size of the problem, defining the problem and saying, here's the order of magnitude. I have a feeling one of our recommendations might be that we can only get it into this range, but it's maybe worth somebody spending some time on getting it more definitive.

Chapter B, to me, is the contributing factors. That's just my own judgement. I haven't thought it through enough to know whether these are the right three contributing factors or not.

Ms Campbell: They're there as suggestions.

Mr Phillips: Yes. I think they might be the right three. I would say perceptions of government would be—well, the economy is the easier one for me to comment on. I think the economy is changing, and part of it is contributing to the informal economy and part of it is contributing to the underground economy. I don't think there's much doubt but that taxes are playing a role in it. People certainly use perceptions of government as a reason to participate in it.

"Reasons for Concern" I think may be fine to make the C chapter, although it flows almost logically out of "Size of the Problem." "Corrective Actions" to me, was not a bad way of segmenting it. I have a feeling that part of the solution will be trying to get some consensus from people that it's in their best interests to deal with it. I don't know whether that fits in there or not. The equivalent is that in drinking and driving, the big solution there was that you got an overwhelming number of the public buying into the fact that: "This is a problem that we all

have to solve. If you're going to drink and drive I'm going to do a lot of things to stop you from drinking and driving." That would be my instinct on "Corrective Actions."

Then I think it's a matter of trying to get pen to paper, in my opinion, and all of us can start to hone it a little bit more. I thought the summary stuff was worthwhile.

The Chair: Mr Carr is on my list.

Mr Carr: I was just going to say I agree with Gerry. What we should do is take the first part and deal with the amount of the problem. The only thing I would suggest is that when it comes to recommendations, I'd like to get a little bit stronger. Personally, I'd like to take a look at some reduction of taxes to see if indeed we could get some of the revenue, but I don't think, as a committee, we're going to get that.

One thing that I think would be a powerful message—in a non-partisan sense; not to blame any government or even this government—is just to somehow word it that we've reached the point in taxes that we can't tax any more, that indeed any more taxation is going to just produce less revenue. I think the Treasurer has said that; I think he and the Premier have said there won't be any tax increases. So I don't think the government members need to go out on a limb if they were to say in this report that the finance committee of the Legislature calls for no increase in any taxes. I'd like to include it to say fees too, but the government members may not be able to include that.

I say this in a non-partisan way. I think it would be a powerful message this committee could send out as one of the recommendations, saying one of the big reasons we have the underground economy problem is because of taxation. Somehow we need to touch on the enforcement, but I think the government is going to deal with that, as we saw with the recent events. I think they're going to do that on their own, because I think they see that as the big issue. So my recommendation would be for this committee to call for no tax increases in the next budget. I don't think we need any preamble discussing the problems of taxation, whether it be the federal government or provincial or municipal. That would be my recommendation.

Personally, I'd like to see us go out on a limb and take a certain segment—I wasn't sure which one—and reduce some of the taxes to see if in fact we can get more revenue, as a lot of economists and people who came forward suggested, but I don't think the government will do that. As the second-best position, I would like to see us very strongly come out with a recommendation to the government that it not increase any more taxes. We can argue the length of time: I'd like to see it for the end of the government's mandate, but as a compromise, maybe we'd suggest for a year.

I don't know what the government members would say to that. I see Karen with her hand up. I think the Premier and the Treasurer have already said there won't be any in the next budget, although that may have changed as a result of what may happen with transfers and so on. But I would like us to make that recommendation and go out a bit on a limb and actually do something constructive and make a hard recommendation rather than just talk

about the problems. I'd like to table that and see if the other members are willing to do that. If so, I think we may come out with something very practical in our recommendations.

Mr Kwinter: Actually, I agree with everything that has been said. I'd just see one area where I think we should break out one segment. When we talk about the contributing factors and we say the economy, I think a message that came through—we heard it today; we've heard through others—is that one of the major contributing factors to the underground economy is the fact that there are people out there who have skills but can't get any work, and because they can't do it through the regular employment stream, they're offering their services at reduced rates in order to just earn a living.

We keep hearing that there's going to be a jobless recovery. If we talk about the economy without singling out the employment component, even when the economy improves and regardless of what we do, I think there's still going to be a very serious imbalance in the employment sector. These people are continually going to try to earn a living somehow by offering their services at reduced rates and, as a result, will continue to perpetuate that particular segment of the underground economy. I think it's something that we should address as a separate issue.

Mrs Haslam: I read over what the Ministry of Finance came in with, and one thing that struck me particularly was the fact that they looked at lowering taxes on cigarettes and said their conclusion was that it wouldn't have any great effect on increasing the revenues at all or taking care of that particular problem, mainly because it was intergovernment. It dealt with federal taxes and provincial taxes, and we are a lower percentage than federal taxes. We are the lower percentage of taxes on tobacco, in particular.

Personally—I may be overruled by my colleagues—I don't feel that would be a recommendation I would support, saying to the government that we don't want—if the Premier says that, fine, and if the Minister of Finance wants to do that, that's fine. I personally don't feel that way and wouldn't feel comfortable making that recommendation out of this committee, but I do agree with what Mr Kwinter has said around unemployment.

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When Ms Caplan was here we talked about the social aspects of the problem and whether, once you get into this pattern, it stays. We didn't get a lot of answers out of any of the people we talked to about that. We thought we might get some from some of the university professors and we really never did get any answers, at least I felt I didn't get any answers on that particular issue.

I agree with Mr Kwinter that we have to look at unemployment as a factor and the job losses and whether, if the recovery does come—and you're saying a jobless recovery to some extent, but I don't think there's ever a jobless recovery—and if things get better, do we feel that, like Sunday shopping, some of that aspect will mellow in this problem. I'm just passing those comments on. I personally don't agree with Mr Carr, but I do with Mr Kwinter. So one out of two isn't too bad.

Mr Chris Stockwell (Etobicoke West): Can I ask a question?

The Chair: Sure, Mr Stockwell. You go right ahead and ask a question.

Mr Stockwell: I appreciate that. We're examining the underground economy and the concerns and you want to address the unemployment issue. Can you relate that for me again back to the underground economy?

Mrs Haslam: It's what Mr Kwinter said. Mr Kwinter said that when there is unemployment, people tend to look to the underground economy for their finances because, as he said, they are not employed in certain areas, and I agree with him in that. I think that's been a major factor. The factors of unemployment are varied, but unemployment as a factor has been a major factor in the growth of the underground economy.

Mr Stockwell: So, in essence, if we could solve the employment crisis we could substantially go quite a distance to solving the underground economy problem? That's a question.

Mr Kwinter: If I may join this conversation.

The Chair: You certainly may.

Mr Kwinter: My particular point was that most economists agree that regardless of what happens to the growth in the economy, we are looking for a 10% unemployment factor to the year 2000. There is also a situation where, notwithstanding that the unemployment rate is somewhere around 11%, that only reflects on the people who are looking for work. There are people who have dropped out of the labour market completely and they are no longer looking. So there is every indication that the unemployment rate is considerably higher than 11%.

I'm also saying that a lot of these people—some of them are unemployed and are doing nothing about it, but there are others who would love to work but can't because they can't get a job so they're offering their skills and their services in the underground economy. We have tended, in our hearings, to talk about cigarette smuggling and talk about the home renovation business and talk about alcohol smuggling as major contributors to the underground economy. I'm suggesting that a major contributor to the underground economy is that there are people available to do services who are offering their services and people are looking at them and saying, "Why not?"

We had a situation where the immediate past president—he's a renovator but he is the past president of the—

Mr Phillips: Home builders.

Mr Kwinter: —Ontario Home Builders' Association, who told us that he had quoted on a bathroom renovation and he'd quoted \$20,000 and someone came along and offered this particular person the same job for \$7,000. He would have us believe, and I have to take him at his word—

Mrs Haslam: Actually, the quote was \$7,000 less than his. That's what it was.

Mr Kwinter: No, because I questioned him on it.

Mrs Haslam: I thought it was \$7,000 less.

Mr Kwinter: No, he said it was \$7,000 against \$20,000, and he maintained that he was able to convince this person to spend the \$20,000 because of the benefits that would accrue to everybody, the taxes and things of this kind.

Interjections.

Mr Kwinter: No, I'm serious.

Mr Stockwell: Do you believe this guy? I've got a bridge to sell you.

Mr Kwinter: Listen, that's the point I'm making.

Mrs Haslam: Don't they need you in the House, Mr Stockwell?

Mr Kwinter: And I said to him either his information is incorrect or he is one hell of a salesman. That was the point I was making.

Mr Stockwell: He had "Sucker" on his forehead.

Mr Kwinter: There are very few people who would look and say: "You know what? You're right. I should pay you the \$20,000, because why should I pay this guy only \$7,000 and do all these terrible things that you say I'm doing?"

The point I'm really trying to make is that there are people out there who are prepared to do these jobs only because it's the only way they can get any kind of an income. That is contributing, in my opinion, to one segment of the underground economy. I think that particular situation should be addressed. I'm not say we can resolve the unemployment situation, but I think it should be recognized that this is a contributing factor to one segment of the underground economy. That was the reason I raised it.

Mr Carr: I think I heard Karen say that she wasn't in favour of a recommendation freezing taxes, so the question I've got—because I think the biggest problem we've got is the taxation issue; we can agree to disagree—if not, do we propose doing some type of minority report on this too? I think it's more powerful if you can get a consensus. But if not, what is the committee's feeling with regard to, are we looking at some type of minority report for people who may wish to have a difference of opinions? Is that what we're looking for, if we can get a consensus, great, and if not, we'll go that route?

The Chair: If you or anyone else on the committee chooses not to agree with the final report of the committee, then you certainly may, under the standing orders, make your own report.

Clerk of the Committee (Ms Lynn Mellor): A dissenting opinion.

The Chair: Yes, a dissenting opinion that can be tabled at the same time.

Mr Carr: I don't know whether Gerry and Monte are in favour of no taxes too, and maybe some of the other members too. I'm just trying to get a sense of the government and what it proposed to do too, because I think it's more powerful if we can get a consensus on this. If not, then it gets into political bickering and we do a minority report that nobody listens to. I really think this one can

be a non-partisan issue and we can address it for one of the first times in a committee in saying, "This is what we've heard; it is taxes"; not point fingers, but we just have to hold the line on it. If we can't get the government to agree, then I guess we're going to be stuck with ending up with a minority report.

But I feel very strongly that we could send a very good message if we can be united on this. I don't know if Karen's speaking for the government or whether we can get a consensus, because I really believe that's what we should have in the report, calling on the government to have no increase in taxes and saying a year and seeing if we can get consensus on that.

The Chair: We certainly can debate that before it goes into the report. The thing I think is interesting here is that we've had a considerable number of people come forward before this committee to make presentations. Their message wasn't entirely consistent. I think we would all agree with that. Indeed, some people said, and I remember this, that taxation wasn't the problem. Now, maybe the majority of the people did. So if we come to some conclusion as a committee, we probably could have come to some of the same conclusions without having heard all the people who came forward with their experience and learned information.

However, it's certainly entirely up to this committee to decide what kind of report we're going to make. It's going to be a combination of our own, no doubt, opinions with regard to the underground economy, through either personal experience or just a lot of reading maybe, and trying to better understand it, or it can be a result of just the people who made their presentations, in which case I would suggest to the committee that we're not going to be consistent, because obviously everything we heard wasn't consistent.

Somehow we have to come to a balance and a decision. I suggest that if we can't send a report in that we all agree on, then it's going to be necessary for there to be dissenting opinions if we can't agree with a total package. Or maybe we could say, "We agree with this total report except for certain parts of it." I don't know.

Mr Phillips: This is the best way to spend our time, to drive the report as far as we can, get the words down and see if there isn't a way of accommodating—

The Chair: The most?

Mr Phillips: Yes. I don't think we can ignore the tax thing.

The Chair: No, I agree.

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Mr Phillips: It may be that you say there is a need to prove or disprove this. What I heard in the tobacco one is that I don't care what we do, but if there's a \$4-a-package difference between Canada and the US, long term, we've got a problem. The problem can be solved, maybe, by getting the US to take their price up, by doing something. I don't think we can ignore that the fact is our tax revenue has dropped dramatically while our taxes have gone up. That's just a statement of fact. I would suggest that rather than trying cross-the-bridge-today gearing, maybe we're better to see if there is a way

that we can get a set of words around this that we can all agree to, then we'll know what we're finally quibbling about.

The Chair: If I may, there are many commodities that drive the underground economy, and many services as well. Certainly as we deal with them individually, there may be different values or different opinions as to what drives this into the underground economy. Indeed, in some instances, I wouldn't disagree with you that it's taxes. In others, it may be the avoidance or evasion of paying taxes on services or incomes.

Mrs Haslam: Did you not see my hand before?

The Chair: No; I'm sorry, I didn't.

Mrs Haslam: Obviously not. Okay.

The Chair: But you can be sure, I'd never ignore you.

Mrs Haslam: I'm sure you won't.

I would have to agree—

Interjection.

Mrs Haslam: If Mr Stockwell's going to be rude, I'm going to ask Mr Stockwell to be removed. Were you being rude, Mr Stockwell?

Interjection.

Mrs Haslam: Yes, I will. I'll do it myself. I'll get my muscles built up here and come over there.

Mr Stockwell: Get a hold of yourself.

Mrs Haslam: No, I'll get a hold of you.

I would agree that there is a perception of fairness and when we look at the Fair Tax Commission report coming out or taking a look at where those taxes are divided in our society, I think that should form part of our report, which I haven't mentioned because I thought it would be mentioned under the outline that is here.

I assumed that would be part of what was in the report because there were certainly comments about the fairness and the perception of that fairness, and I assumed that your "perceptions of government" would also include perceptions in the tax system, perceptions of the fairness in the tax system, because we certainly had enough people come in and talk to us about they see this and they see that, and they believe this and they believe that, so I assumed that would be part of this report.

The Chair: At this point in time, just so that the Chair is clear what's happening here, we are giving direction to the research officer, Elaine Campbell, to go back to her office and—

Mr Phillips: Workstation.

The Chair: Workstation, and in more detail and with the specifics that we've suggested here today come back with a report that we can base any further deliberations on. Is that not good?

Mr Stockwell: But it must deal—

The Chair: Okay. In that case, Ms Campbell has some further questions.

Mrs Haslam: I think that Mr Carr wants a strong recommendation and I would agree that we should say very strongly that they have to get a hand lock on it. They should certainly do much more in the research area

because part of the problem was we didn't have a handle on the research, and even the financial ministry people came and said, "You know, we're interested in what you ask this group and this group and this group, because we want to see what they are saying." I think part of the recommendation would be that they should get a very strong handle on the economy in this area, look into it very seriously.

The Chair: Ms Campbell, did you want to ask the committee some more questions?

Ms Campbell: Yes, I'd like to ask some questions of the committee for the sake of clarification. Am I assuming that the committee is agreeable to the outline, as it appears on the document, that you all have in front of you, with some minor changes in terms of the order? It's my understanding that the members would like the section "Measurements" to appear after "Definitions," followed by "Reasons for Concern," then into "Contributing Factors."

Mr Phillips: That would be fine with me.

Mrs Haslam: I think that would be a good idea too.

Ms Campbell: Under the section "Measurements," I have a subsection "Home Renovations." After the presentation this morning by the Carpenters' union, I was wondering if it might be appropriate to change that subheading to "Construction," discussion of construction as opposed to specifically "Home Renovations"?

Mr Phillips: My only concern with having those three is that I think that it implies that it is just those three. I think there's something broader at work.

Ms Campbell: Do you feel that there should be something in the introductory portion of that section to the fact that testimony was heard from representatives of a number of groups and these have been chosen as representative of a larger problem?

Mr Phillips: That would be my feeling. I think the very first witness we had was with the ministry people, I think what stuck in my mind was the one saying that, in his judgement, the biggest underground economy occurs in the personal income tax area.

Mrs Haslam: It's not covered in here as a subtopic except when you get down into "Corrective Actions." You talk about taxation under "Corrective Actions," but it is really not part of the problem under "Contributing factors." Well, it is under "Tax System," I suppose. We don't deal with it as a specific sector that we're looking at.

Ms Campbell: Is it your suggestion then that there be a subsection under measurements dealing exclusively with taxation?

Mrs Haslam: I'm not sure we have enough information to make it a subtopic. That would be my concern. I don't feel that we covered it extensively in order to make it a subtopic. Everyone who came in certainly talked about one of these three. It just happens that's the way the presenters ended up coming in and talking about three very evident pieces in the underground economy.

One of the first times that we had people in, we tried to talk about other forms. But these were certainly the

most evident ones they had the information on. That's what we got most of the information on. Nobody talked about retail outlets or going in and paying cash, or flea markets even, as a way of going and paying cash and getting deals. There are many convenience stores or sellers that deal in merchandise that is not used merchandise like you'd find at an auction sale or something like that. But that's part of the problem in the larger context of it. What we heard were three areas and you've captured those in there.

Ms Campbell: Am I also to understand that there's some interest in focusing most particularly in the section on unemployment listed under the economy in "Contributing factors"? I think Mr Kwinter mentioned making reference to the fact that it's expected there will be a jobless recovery.

Interjections.

Ms Campbell: Are you content with the way it's presented there now?

Mr Jamison: I think what Mr Kwinter indicated was that there was an area I believe he mentioned really fascinated him, and that was considering the prospective size of the underground economy, what effect would that have on the point where our unemployment is at a certain rate and possibly might be even lower? Is that not right?

How does that impact those figures that really revolve around unemployment and the GDP and so on, and also the contribution then to various safety net programs that are out there: UI and even as far as welfare is concerned and tax dollars?

Mr Carr: The first part's fine, I think, the way you've got it laid out as far as I'm concerned.

Just in the other points for consideration, a couple that I wanted to make: When it talks about tables and diagrams, one of the things I think would be helpful would be to have a diagram in there of the total revenue of the province going back about 10 years, which would probably include all three parties, just to show where we've come in terms of the revenue growth in the province—graph form, very simple—so people can look at it and see. I suggest 10 years just to round it off, back to 1983, seeing what the revenue was, where it goes. I think that would be fairly easy to do.

Mr Wiseman: It's in the budget.

Mr Carr: Yes, it's in the budget; just to have some understanding of where we're at with revenue.

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The other thing I think we should include in there is something with regard—you say the use of international and national comparisons, and I'd like to see something in there comparing our taxes to some of the other jurisdictions. I think that can be done because if I'm not mistaken some of the people brought some of that information in, I think even the Ministry of Finance brought it in, comparing other provinces. So that's fairly easy for Elaine to do.

When we talk about other jurisdictions, the ones I would suggest is if we maybe took the comparison, the same categories, versus Manitoba and then also include our major trading partner and our real competition, which

is the United States. I would suggest we pick maybe a couple of Great Lakes states, alphabetically, Ohio—who cares—Pennsylvania, maybe Arizona, whatever, a couple of the southern states, to just see where we compare tax-wise versus these other jurisdictions. I think that would be very helpful as well.

The rest of the report I think is good. If we put those two things in under the graphs and tables and international comparisons, I think that would be helpful, that we could put in the back, and I would suggest we do that. Everything else seems fine to me the way you've got it laid out, and I want to compliment you on the fine job, Elaine, that you did in putting that together because I think it's well laid out. If we do that, then we can come back and debate what we'd like to see in the recommendations because I understand that will be the contentious issue, what we're going to do with taxes and so on. So that would be the only thing and if you could do that, I'm happy with it.

Ms Campbell: I've included the reference to the use of tables and diagrams thinking specifically of a number of the presentations that have been made, which included graphs and tables that the witnesses had prepared on their own.

Mr Carr: Yes, so it's easy for you.

Ms Campbell: Would the committee like to include the graphs prepared by witnesses or is there any interest in including that type of information?

Mr Carr: I would just obviously like to see if maybe you'd just confirm that the information is correct. I don't want you to get into doing a lot of work, but by the same token, we don't want to put something in because somebody happened to say it. I think we trust you to be able to verify it and then use whatever you—and you've received a great number. I'd leave it up to your discretion to see the ones that you'd like to include.

Mr Wiseman: I'm not exactly sure what Mr Carr is driving at with respect to wanting this comparative analysis, other than to maybe try and see what the tax burden is on both sides of the border. I think the Ministry of Finance actually does that. But one of the problems that I find with the Ministry of Finance numbers is that they don't do it all, because the United States cities have both an income tax for personal income tax and a business tax application that is applied that we don't do here.

Mr Carr: Let's get a bottom line.

Mr Wiseman: That's very difficult to do because every city is different. Detroit may be different from Pontiac and so on.

Mr Carr: Let's pick five cities.

Mr Wiseman: And Buffalo and so on and Rochester, they may all have different tax rates than these two areas.

The other thing in terms of this—this is going down a whole different road—is that putting an end to the underground economy will have consequences in itself in terms of what will happen to the economies of these regions. It's kind of like taking the heroin away from an addict in some respects. I was talking to Mr Kwinter earlier about this briefly and we should be thinking about

this, that the money that's being injected into eastern Ontario, should it dry up, what would be the consequences for legitimate businesses that are really having their livelihoods sustained by the underground economy? For example, we heard that 16-year-olds come into a Ski-Doo place and buy four Ski-Doos with cash, or buying cars or buying housing appliances and so on. They won't be able to do this at the end of the day, and I'm not arguing in favour of the underground economy but let's have a complete picture.

Mr Stockwell: That's the number one reason you have the Mafia in places.

Mr Wiseman: No, I don't agree with that, but I think we don't do ourselves any favours by not taking a holistic approach.

Mr Kwinter: The Mafia, at least they're organized. Organized crime is smarter than unorganized crime.

Mr Stockwell: They spend smarter.

Mr Wiseman: I think we heard pretty well from the convenience store people how organized the economy is here with respect to cigarettes. Their fear, which I think we haven't really talked about, when they said this, was that if you put the cigarette levels—the taxes and costs—at exactly the same for the legitimate as against the illegitimate, the crime network is so well ingrained that they'll start to knock off the stores to find cigarettes to sell so they can continue to sell at those prices.

I think we have to deal with that, or we have to say at least that these are issues that need to be looked at. I know that Chris doesn't agree with me.

Mr Stockwell: I've just got to get it straight, that's all.

Mr Wiseman: Do you want me to go over it really slowly for you?

Mr Stockwell: No, you went over it slow enough. I just want to be sure.

Mr Phillips: It can be like a Jobs Ontario thing, a bridging thing, until they get back on their feet.

Mr Stockwell: Yes. We should concern ourselves, because if we do happen to close down the underground economy, this committee, and it's possible—

The Chair: It's probably going to happen tomorrow.

Mr Stockwell: Probably—we may well close down the legitimate businesses that are operating because of the benefit the underground economy brings. Oh baby, that's a tough one.

Mr Wiseman: The other group of people that brought that forward were the OPP.

Mr Stockwell: You open that Pandora's box, you'll never close it.

Mr Wiseman: Just for Mr Stockwell's information, this issue was raised by the Ontario Provincial Police, and the police from Cornwall as well, in that what they were saying is that if you get rid of this part of the economy, they are going to look for other sources to deal illegally: guns, cocaine, as well.

They raised the issue about being concerned about this. If we do as Mr Stockwell says and not even worry about

this Pandora's box, then fine, if that's what the committee wants to do. But I think we need to at least be cognizant of it.

Mrs Haslam: I wanted to go back to something Mr Carr—

Interjection.

Mr Wiseman: They may not agree. You may not have to do anything about it.

Mr Phillips: I think politically it will be mildly difficult for us to have a help program for the people who are hurt by the underground—

Interjection: Put out of business smuggling.

Mrs Haslam: Could I get back to the report, Mr Chair? Mr Carr was asking for a comparison of tax bases. If that's the case then, I'd also like a comparison of the social programming that comes from those tax bases. That becomes too much for, I believe, Ms Campbell to look into.

If on the bottom she is talking about inclusion of tables and diagrams that came from the groups that were here, then that's not so bad. I believe that's what she was saying; there were many interesting tables and diagrams. Mr Carr said, "At least make sure they're accurate before we use them." But if you're going to ask the research person to go off and do a comparison of tax bases, it becomes an extra job, and if you're going to do that, then I'm going to ask that we compare also social programming and the level of social safety nets that are in place from that same tax base.

Mr Carr: Why don't we just agree that ours is the best in North America, and we can put that in there—

Mrs Haslam: Great.

Mr Carr: —and at a bottom line—

Mr Stockwell: Right at the bottom.

Mr Carr: —say, "We have the best social programs in North America," and we'll all agree—

Mrs Haslam: Then why don't we just say that the taxes in some southern states are much lower than the taxes in Ontario?

Mr Stockwell: I think he's talking about the border states as well, because clearly there's a competitive edge here.

Mrs Haslam: I just love Mr Stockwell's explanations.

Mr Stockwell: Thank you.

Mr Phillips: Don't start talking to Karen.

Mr Stockwell: I appreciate that. I guess the problem you have is—what Gary has requested seems fairly reasonable because—

Mrs Haslam: I'm not saying that he won't get it; I'm just saying that if Mr Carr's suggestion was taken—

Mr Stockwell: Boy, that was a quick explanation. You don't like them that much.

Mrs Haslam: I always know what you're going to say. If Mr Carr's asking for some extra things, I just said, if that's the case, then we'll ask for the same information from the same communities. That's all.

Mr Stockwell: I understood that. I really understood

that the first time. As I was going to say, the difficulty you have, I think, in the request being—

Mrs Haslam: I know what my difficulties are.

Mr Stockwell: The request I think that Gary is making is fairly reasonable simply because of the exporting of the cigarettes across the border and then the importing of them back across. If you could just get a handle—the statement of \$4 cheaper per pack—find out what kind of profit margins you're dealing with, with respect to—

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Mrs Haslam: That's not what Mr Carr was saying. Mr Carr was saying he wanted to look at the tax bases in certain states.

Mr Stockwell: Yes.

Mrs Haslam: What you're saying is that you wanted to see the difference between the export tax to border states and the difference in that.

Mr Stockwell: But you didn't let me finish.

Mrs Haslam: Oh, you had more?

Mr Stockwell: Well, I thought I did. Tell me if I did; I'm not sure.

In essence, what it comes down to is what the purchasing power in the States is and how it gets brought back here and what kind of profit margins you're looking at. Even if you did address the tax issue, what would you have to do to address the tax issue? What kind of reductions or competitiveness would you have to make to reach a point where it became no longer viable to bring these smuggeties back in? That was his request. If the social service argument wants to be made, so be it.

Mr Jamison: That assessment is possible there.

Interjections.

The Chair: Order, please. It's hard for the Chair and for Hansard and everyone else to understand what's being said.

Mrs Haslam: Are you leaving now?

The Chair: Ms Haslam.

Mrs Haslam: Yes?

The Chair: Order, please.

Mrs Haslam: Oh.

Mr Jamison: What Mr Stockwell says is probably a valid way to go on that particular issue. Beyond that, I believe we have to take into consideration what the tobacco board also input into this, number one, the difference in export price on tobacco sold, which is approximately a dollar in difference.

The other point that should not be missed when we're evaluating on the basis of what Mr Stockwell would like to see is that it has been made very clear that production units are being set up on this side of the border and that side of the border where there is absolutely no tax being paid whatsoever on product that is being produced and packaged as Canadian tobacco products. To some extent, the liquor board made a similar kind of presentation on the grape juice that became wine on its transportation route in large containers.

Mrs Haslam: It's a miracle.

Mr Jamison: Yes, a miracle; and then packaged up here under traditional labels and so on. Those kinds of things go beyond what you're saying, but also identify in the future what I consider to be major, major problems in this area regardless of what you do in the tax area.

Mr Stockwell: Good point.

The Chair: If I could just make this comment, certainly there are components of the underground economy that include the smuggling or the bringing in of alcohol and tobacco products, but I think we can't forget that in the full-spectrum examination of the underground economy there are many, many facets to it and it's not just those two items, although they are important. There are services and other things.

Mr Jamison: I'm just saying the preliminary report doesn't have anything that reflected that.

The Chair: I'm not saying this to pose it as an argument, Mr Jamison, just the fact that when we examine the underground economy, certainly the alcohol and tobacco issues are important, there's no doubt about that, with regard to tax revenues lost, but I think the underground economy is much more inclusive of other services and commodities than just those two.

Does the research officer have enough information?

Ms Campbell: I have two more questions. There is a large body of literature on the underground economy, and I was wondering if the committee would be agreeable to my limiting the discussion in the paper to what was said to the committee and recorded by Hansard and any references that were made in the briefs that were presented to Hansard.

Mr Stockwell: Yes. Otherwise—

Interjection.

Ms Campbell: My final question is, when would the committee like this paper presented to it?

Mr Jamison: We can be back in a couple of hours.

Ms Campbell: I'll try.

Mr Kwinter: We wanted it yesterday—

Ms Campbell: So you want it today.

Mrs Haslam: I believe in the subcommittee's report two days were given for you. That's what the subcommittee decided, isn't it?

Clerk of the Committee: Two days for you to talk—

Mrs Haslam: Two days for us to talk to you. Oh.

Interjections.

Ms Campbell: Next summer?

The Chair: Certainly we'd like it as soon as possible, but is it unreasonable to expect that you could have something ready for us next Thursday? Is that too soon? We want to be fair.

Ms Campbell: I think it is.

The Chair: It is too soon?

Ms Campbell: Yes.

Mr Stockwell: Do you need more staff?

Mr Jamison: How about Wednesday?

Mrs Haslam: Chris will donate some of his staff to help you, I'm sure.

Interjections.

The Chair: If that's the case, then I understand that, although there have been some negotiations that have concluded with regard to the House leaders trying to determine when we're all going to get out of here for Christmas, there's nothing absolute about the fact that we're going to be here on the 16th, as I understand it. So I think it would probably be wrong for us to suggest that we can meet on that day, because it just may not happen, although we could propose that.

Mr Phillips: I think we probably need a total of two days and maybe another hour, if we can schedule it, in my opinion, in January or February. I think to have a report in our hands by next Thursday and us have time to digest it is unrealistic. Even if you could do it, it would be like Wednesday night.

My recommendation would be to try to schedule one day in January where, after we've had the report for some time, we can come and discuss it and give our input, another day I hope two or three weeks later—I'm assuming we'll be doing some pre-budget work and we could work it into that—where we can then give our final comments and then sort of a half day some time another two or three weeks from then when we can finalize it.

I would think if we could plan minimum two days, maximum two and a half days some time in January, February or March and aim to complete the report whenever, February or March, in time to come back with our report, that would be reasonable. Then I think maybe, Paul, what we have to do is get the subcommittee together to see what other business we're going to do and how we can schedule that.

The Chair: Very good proposal, Mr Phillips. I find that quite agreeable.

Mrs Haslam: Would that allow us enough time to hand it over to the ministry for their pre-budget look at it? I think that's also important, that the ministry have it in time—

Clerk of the Committee: Just a minute. What do you mean, hand it over? Do you mean the final, printed, polished, this is the very end, we're going to table our report?

Mrs Haslam: If not, at least a draft then, because if we leave it too late, it won't be available to the ministry in time to be part of its pre-budget consultations or in the ministry looking at a pre-budget time. In that case, then it might not be included in part of what they're doing in the next budget. I feel it's important we give it to the minister and the ministry in time for them to take it into consideration in the budget process.

Mr Carr: Why do a pre-budget in January?

The Chair: It would seem evident from everything

I've heard that we would want to deal with this probably in January as opposed to March so that we could—

Clerk of the Committee: You're doing this on the record, so they'll know what the discussions are from Hansard. So there will be that much, and you will each have copies of the drafts.

Mr Phillips: If I might, our pre-budget work traditionally is theoretically designed to give input into the budget. I think we normally complete that mid-March, is my recollection, mid to late March. The budget comes out at the end of April, normally, first of May. So I would think that if we're finished our work by the end of February on this, we're providing that input earlier than we would normally. I guess technically we can send it to the minister without having tabled it in the Legislature.

Clerk of the Committee: Yes. If you wanted to, there's absolutely nothing that says you can't give them a copy of the draft report, the sort of finalized draft report before it's printed and polished and translated and tabled in the House.

Mrs Haslam: Fine. That would be okay with us.

Clerk of the Committee: Whether it's officially or unofficially.

Ms Campbell: Would the committee then like the first draft in the first or second week of January?

The Chair: Sounds very good.

Ms Campbell: Which would it be, the first or the second week?

The Chair: Do you have a preference?

Mrs Haslam: Let's make it the second.

The Chair: Let's do the second, and that gives you a little extra time.

Mrs Haslam: We wouldn't want you to work Christmas Eve and New Year's Eve.

Ms Campbell: I had no intention of doing that.

Clerk of the Committee: We'll just forward it in to your offices then when it's ready?

The Chair: Yes, that sounds like a good idea. If that's all the information you need, then we can consider our directions for a summary or an actual paper with regard to the underground economy to come in the second week in January and look forward to that. We all do.

Before we officially adjourn, I'd like to ask subcommittee members if they could stay just for a few minutes so we can discuss upcoming business the committee will be dealing with.

In that regard, this committee stands adjourned until the next time we meet.

The committee adjourned at 1631.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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*Kwinter, Monte (Wilson Heights L)
Lessard, Wayne (Windsor-Walkerville ND)
Mathysen, Irene (Middlesex ND)

*Phillips, Gerry (Scarborough-Agincourt L)
Sutherland, Kimble (Oxford ND)

**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Perruzza, Anthony (Downsview ND) for Mr Sutherland
White, Drummond (Durham Centre ND) for Mr Lessard

Also taking part / Autres participants et participantes:

Stockwell, Chris (Etobicoke West/-Ouest PC)

Clerk / Greffière: Mellor, Lynn

Staff / Personnel: Campbell, Elaine, research officer, Legislative Research Service

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Lundi 17 janvier 1994

**Standing committee on
finance and economic affairs**

Underground economy

**Comité permanent des finances
et des affaires économiques**

Économie clandestine

Chair: Paul R. Johnson
Clerk: Lynn Mellor

Président : Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 17 January 1994

The committee met at 1414 in the St Clair Room, Macdonald Block, Toronto.

UNDERGROUND ECONOMY

The Chair (Mr Paul R. Johnson): The committee will come to order. The business of the day is dealing with the draft report on the underground economy, but I'd like to inform the members that there is a need for a subcommittee following this meeting today so we can address the issue of people who would like to be put on the list to make presentations during the pre-budget consultation process.

As I said, the draft report on the underground economy is our business of the day. I believe everyone has a copy; if not, please let the clerk know. I'm assuming that the members have had a chance to review the research officer's report. As indicated in that report, there is still some direction to be given on some aspects. The Chair is open to any comments at this time.

Mr Gerry Phillips (Scarborough-Agincourt): It's always difficult to write these things by committee. Maybe the easiest way is to go through it section by section.

On the introduction, I wouldn't mind a paragraph indicating that this wasn't meant to be the definitive study of the underground economy. People reading this may not realize we spent a total of five days on it, and I don't think we ever thought this was going to be the final study of it. I wouldn't mind a paragraph in here indicating that it should be recognized by the readers that this was an attempt by the committee to deal with a very complex matter and that it wasn't meant to be...etc. One paragraph I think would be helpful to all of us so that people don't think we spent millions of dollars on this report only to turn out a fairly small report. That would be my comment on the introduction.

Mrs Elinor Caplan (Oriole): I also think it would be a good idea if we could go through it section by section.

The one thing I didn't see—and if it's here, please forgive me, because I only had a chance to very briefly review the report—was the behavioural nature of the workings of the underground economy. Some presentations particularly talked about this, and we talked about it, as a symptom of unrest within society, whether it was the euphemism of "the taxpayer revolt" or people responding to governments they didn't like, that kind of thing. But it seemed to me that in explaining the concerns about the underground economy, the fact that you had people bragging about or openly admitting to this kind of behaviour was significant enough to be mentioned in the report, and I didn't see it here.

The Chair: Would the research officer like to make a comment?

Ms Elaine Campbell: I think there are a few references to it, but in not much more than a superficial way. But I could certainly add to that, especially under any

social aspects related to the issue.

Mrs Caplan: Either under the social aspects or under "Reasons for Concern" at the beginning, because one of the things we were concerned about was the societal breakdown as people's behaviours and attitudes crossed the line from tax avoidance to tax evasion and outright flagrant participation in the underground economy. If we want to understand that as lawmakers and legislators, then I think it's important that we let people know we understand it in reports such as this.

1420

Mrs Karen Haslam (Perth): I remember this being raised at one of the first meetings, but after that, every time I asked the question there weren't any answers. I remember time after time asking about the social aspects, and that was something I wanted to have answers to. I know it was raised once by Ms Caplan early on in the committee meetings, but in subsequent presentations I never found any answers. So I would be concerned that we were supplying answers that weren't supplied to us. I know there were some recommendations about writings that were available, and it would be an area I wouldn't mind exploring. I just have a concern that it didn't come from these meetings, because when we asked the questions nobody had the answers.

Ms Campbell: I think there was more in the briefs than I have summarized in here. I certainly wouldn't go beyond what appeared in the information presented to the committee.

Mr Gary Carr (Oakville South): I'm just going to echo what Gerry said, that the way we should proceed is to go through as was suggested. I'd have no problem supporting his comment about the report, saying that this isn't the final be-all. I think that's the way we should proceed.

The Chair: Indeed, Elaine Campbell has indicated that this isn't the final draft, and it will be revised. I just wondered if anyone had any general opening comments after having had a chance to review it. I think it's reasonable, and I was indeed planning, as I expect all members were, that we would go through it section by section to review or clarify anything.

Given that we are going to go through it page by page, we should probably start with the first page, the introduction. Recognizing that the table of contents is accurate, we should go to page 1 and start with the introduction. Does anyone have any comment on the introduction?

Mr Phillips: That's where I would have a paragraph, somewhere in there, indicating that the reader should recognize that this was a study done over a five-day period by the committee and that it wasn't intended to be the definitive study on the underground economy.

The Chair: Any further concerns to be raised with the introduction as it appears in this report?

Mr Monte Kwinter (Wilson Heights): I apologize

for being late. I didn't hear the discussion that took place just before I got here.

When I read this, I got the feeling that it was really an overview of the problem without too much emphasis on solutions. I also found, and it didn't seem so at the time, that most of what we heard during our deliberations were definitions of the problem as seen by various people, and everybody had a different idea about it; from such things as even a definition of what the underground economy is, to the extent of it.

I think what should be coming out of this committee are some recommendations to the government about how it deals with this problem. It would seem to me that it would have been helpful had we had some definitive suggestions from people that we could then weigh and pick and choose what we thought were the most practical. It doesn't seem to do that, yet at the very end of the document it gives a list of some of the concerns and the corrective actions.

Who's going to determine what those corrective actions are? Is it just that each of us is going to say, "I think this is how we should do it"? What sort of validity will that have, with all due respect to all of us? I wonder whether that should somehow or other be reflected in the introduction, the problems we have with that particular issue.

The Chair: I hear what you're saying. It's true that many of the decisions that will be made under the heading "Corrective Actions" would obviously be political. We may not all agree on what we think should happen with regard to those.

I also think, though, as Ms Campbell has indicated on the front page, that this is a first draft and will be revised as directed. It was my understanding, as I believe was probably the understanding of everyone in the committee, that as we read through this brief, when you get to "Corrective Actions" there needs to be more said about that.

Obviously, as you read pages 18 and 19 of this report, it gives some headings that need more explanation or more direction. If indeed this report is to direct the present government with regard to the problem of the underground economy and how it can mitigate some of the problems, then certainly we have more to do in that regard.

Mr Carr: My suggestion would be that when we get down there—and I think Elaine has done a good job of putting the headings together—each of the three parties can put forward what its suggestions would be. If we have agreement, then away we go, and it goes in there. If we don't, we can decide what we want to do. That's how I think we should proceed: Just keep going through it, and when we hit those headings, each of the three parties can throw out their suggestions and we go from there. If we can come to a consensus, great.

The Chair: It seems like a reasonable way to go. I guess we should continue from the beginning, and eventually we'll get to the point when we will deal with the corrective actions that need to be taken.

The second page is "Definitions," and it's already been

indicated by some of the members that this is a complicated thing to arrive at. Mr Phillips?

Mr Phillips: I always thought that the definition we were using of the "underground" economy was quite different from the "informal" economy. To me, the closest definition was the one the Ministry of Finance provided us, that that would be as close a definition of the underground economy as I could find. We heard a lot of comment throughout, and I think we should point it out in our report, that the informal economy also looks like it's growing quite dramatically and no doubt is having some impact that is as yet undefined, but for the purposes of our study, we were dealing with people who were not avoiding taxes but were evading taxes.

To get the debate going, that's what I would say we should be focusing on, a definition something like the one at the bottom of page 2. We should be pointing out that we seem to hear a lot of talk about a very quickly changing economy that's different from the economy we've seen in the past and that's where this informal economy comes in, but that the purpose of this study and our recommendations is to deal much more with the definition from the Ministry of Finance.

Mr Kimble Sutherland (Oxford): On that point, are you then suggesting a reorganization of how the points are presented from the different people on this page? Would you start with the Ministry of Finance and then add what the other definitions are?

Mr Phillips: Personally, I would. If I were writing it, I would say: "It was the intent of the committee to deal with the underground economy, which involves things such as tax evasion much more than tax avoidance. Therefore, while there is no perfect definition, the one that came closest to the committee's interpretation of the underground economy is the one the Ministry of Finance provided." Bang. That would be more at the top.

Mr Sutherland: And then you'd reference the other—

Mr Phillips: I would say that it's important to recognize that we seem to be facing a rapidly changing economy that may also be impacting on the way revenues come in, with what appears to be a growing informal economy, but that isn't what we decided we would investigate.

The Chair: Any further comments on the definition pages? If not, then we come to the heading "Size of the Underground Economy" on page 3, a pretty substantial part of the report, given the number of pages.

Mr Cameron Jackson (Burlington South): As one who didn't participate in the earlier committee hearings, it would appear that this section bases all of its details on estimates of how the ministry would calculate this phantom number. To what degree was there inquiry into the whole area of investigations and collectibles and what portion of a given investigation, that may have occurred either with legitimate businesses in terms of avoidance or with persons who are violating the law and are caught, and amounts seized etc—was there a thorough examination of the known sources within the given ministry?

1430

The Chair: It is regretful that you weren't here

during that time, because I think when the ministry representatives were here giving their explanation of how they were trying to arrive at an unknown entity, that being the underground economy, I believe they—some of the committee members may disagree, but it appears that the Ministry of Finance representatives looked at those things they would be responsible for in the real economy and tried to extrapolate from that how things they have no record of might have grown or might exist, that being the underground economy. It is a very difficult thing, as I'm sure you understand, to actually measure the underground economy.

Mr Jackson: Perhaps, Mr Chairman, I wasn't clear enough. I accept the report's conclusions, which you're now sharing with me. What I was asking—for example, Harper's Wholesale, which is responsible for half the distribution of cigarettes in Ontario outside of major grocery stores, was recently investigated and audited by the ministry and it couldn't find a single penny—the ministry's perception and belief was that Harper's was obviously doing something with its books, and it sent in teams of auditors and took up considerable weeks, almost months, of time. They found absolutely not a single penny out of order, but they were from that experience able to quantify how much volume was still occurring and therefore how much was being missed, through what was a rather good system of accountability by Harper's. The ministry ultimately acknowledged it; in fact, the ministry is on side working very closely with Harper's, as an example of cooperation.

But the experience, I am led to believe in talking to the principals, helped to quantify the amount of illegal activity. Parallel with this is cooperation with the RCMP to quantify where the surfacing of these cigarettes is, which is what we're talking about in this example. Harper's has given to me a substantive amount of information, just informing me as an MPP, and the principal owner of Harper's is a constituent of mine. My question really was, to what extent were all the known sources of investigation pulled together to help quantify the numbers, as opposed to what I'm reading here, which is—and I don't mean this in a negative way—a simplistic formulated methodology rather than a careful assessment of where all the elements of an underground economy surface?

The Chair: To be fair, the ministry representatives have made the presentation, and as I said earlier, it's unfortunate that you weren't here to hear what they had to say. However, you've mentioned Harper's and you've mentioned cigarettes, and that's one aspect of the underground economy. But if you look at the whole of the underground economy, there are many other factors that have to be taken into consideration, and once you examine as many aspects of the underground economy as you are aware of, then it becomes quite an undertaking. I would suggest that the Finance ministry has done absolutely the very best job it could in trying to determine what the underground economy is. Obviously, they don't know all the aspects of the underground economy, but certainly within the parameters of their knowledge of the economy and what they believe to be the underground

economy, they've extrapolated and come to some conclusions.

Mr Sutherland: I don't know how long this audit of Harper's went on. It may be that the audit was in process at the time they made that presentation and hadn't concluded, and therefore they obviously would not want to comment about an ongoing audit on the specifics. If, from the information you're providing, that audit has been completed, maybe a request could be made to the ministry about whether it has updated information. On the cigarette issue alone, if they have updated information based on the significant audit of the company Mr Jackson referred to, maybe we could have that information forwarded to the committee.

Mr Phillips: In this section, I listened very carefully to everybody who presented, because this is the area I thought we might be the most helpful in, in trying to define the size of the problem. My clear recollection from the presenters was that we could draw two conclusions.

The first is that the underground economy is growing, and probably growing significantly. Virtually every presenter—and by the way, we heard from a lot of the thoughtful people in the area, the economists and professors who've spent a lot of time on it. Second, the number that seemed to be the most conservative number was around 7.5% of the gross domestic product. We heard some others ranging way up there, but as I listened to the presenters who seemed to be looking at it in the most comprehensive way—and we could almost list the 20 people who gave us the estimated percentage of the GDP—I formed an opinion, maybe not based on a detailed analysis, that conservatively, we're talking about 7% or 7.5% of the gross domestic product in the underground economy, but, as I say, some estimates range higher than that. So if I were writing this, I would say that clearly, almost by definition, this is difficult to get our hands on.

By the way, the Ministry of Finance officials were going to attempt to get back to us with a number, if you remember. I don't think they ever did, or did they?

Ms Campbell: I had a conversation with a ministry staff person a few weeks ago. They were going to have something ready to give to the committee within the following two weeks, a response to the question you asked during their presentation.

Mr Phillips: I think it would be helpful if we had that. But if I were writing it, I'd say we've had many estimates of the size of it etc, and exhibit 1 shows the various people who presented and the range of estimates. The thing we can conclude is that all the presenters believe it is growing, and most believe it's growing significantly, and that we are talking about a sizeable problem, ranging from 5% to 22%, but in my opinion it would be in at least the 7.5% range. If that is the case, then the revenue losses for the province are in the \$3-billion to \$4-billion range, I believe.

Mr Carr: We've got the figures and the percentages, and what I suggest I would like to see in here is the bottom-line total it's costing the province. Mr Brandt and the tobacco people were in, and I believe—Elaine, correct me if I'm wrong—we probably have a pretty good

indication, knowing the percentage of GDP and so on, what the revenue losses are, bottom-line. I think it would be very helpful if we put it in there, even if we are, as Gerry said, being conservative. That is an excellent idea, that we say we believe the provincial government is losing x amount as a result of this.

I think it can be done. I don't know what the figure is now, but I would look for some guidance from our legislative research to do that. I think that would have a big impact, primarily because when it comes to the average citizen, when you talk about percentage of gross domestic product and so on, their eyes glaze over. If you can tell them that the underground economy is costing the provincial government however many billion dollars it is, I think it would be very helpful. That would be my suggestion, that we put in there, "It's the committee's belief that the Ontario government is losing x amount of tax revenue as a result of the underground economy." I don't know what the other parties feel, but I think it could and should be done.

1440

Mr Kwinter: Page 6 talks about the estimates of the size of the underground economy, the fact that professors Mirus and Smith, in collaboration with Professor Karol-eff, updated their figures to 1990 and arrived at the range as being from 15% to 20%. Then we go on to say, "The results were said to be consistent with other studies."

I was listening to the radio last week. Unfortunately, I just got the tail end of it, but I got the impression that Mirus and Smith have now updated their figures, and the figure I heard was 26%. If all their studies were only up to 1990, at which point they said it's between 15% and 20%, when you consider that what we have heard is that one of the great initiators of the underground economy is the GST, which didn't come into effect until January 1991, there is a very good possibility that this 26% figure is closer to being correct. If that is the case, that's a very significant number.

To go on to page 11, and I know I'm jumping ahead a little bit, under "Reasons for Concern," you say, "When Canada's underground economy is put in an international context, it is not that large." I don't think that has any relevance. The relevance is what is it to the Canadian economy. I don't care if 90% of Thailand's economy is underground. The idea is that in Canada, if our underground economy represents 26% or a number of that magnitude, that is a huge cost to the taxpayers and to governments.

I think it's important that we come up with a figure that has some kind of relevance. To be using figures that are three or four years old doesn't do anybody any good. I think one of the major responsibilities of this committee is to use the best information available, to at least try to quantify the size of the problem, and I don't think we've quite done that by just putting down the range of views. I think we have to come to a determination about who has the best handle on this issue and what is a realistic size. I think that's one of the major things our colleagues will want to know: How big is this problem and of what magnitude should the response be based on the size of that problem?

The Chair: I was wondering, as I've listened to comments being made, whether it would be worthwhile to include in this report a graph to indicate the magnitude and how it has grown so dramatically over the last, say, five years—we could even go to 10 years, but certainly in the last five years—as many of the people have reported the changes they believe they've observed over the last little while. Would that not be worthwhile for someone who wanted to get a very quick view?

Mr Sutherland: Mr Phillips's suggestion was to put in an exhibit or chart indicating the presenters who came forward and what they estimated the range was, and we might even want to add what year their study was done to give people some handle on that as well.

The Chair: But as Mr Kwinter said, and I've heard these things too, the reports are that it's grown even recently, that even since we did our first hearings on this, there's been significant growth.

Mr Sutherland: But that's the whole problem, and we're all recognizing it. The main point that needs to be made is that we can't put a handle on it. I would accept the fact that yes, it is growing, but to try to estimate what that is without any updated information—maybe we can contact Professor Smith and get an update and see what he has to say.

Mr Kwinter: I was going to make that suggestion. As there was a report in the media—I didn't see it in the print media but I heard it on the radio—maybe it would be worthwhile to contact Professor Smith and ask him if he has come out with an updated report.

Ms Campbell: I was given a copy of a newspaper article that appeared just prior to Christmas. They were quoting Professor Smith in there and making reference to projects that he had done with Messrs Mirus and Karol-eff, and I was left with the impression that it was the report that was released in August of last year at a European conference on the underground economy. I think the figures that appear in that form the basis of their 1990 report. I could confirm that information with Professor Smith's office in Edmonton, but my suspicion is that the figures that were being cited were those contained within the report released in August, which would be based on figures from a few years ago.

Mr Sutherland: It's worth checking, anyway.

The Chair: If the research officer would care to look into that, we would appreciate it.

Mr Carr: One quick, small point: When we're doing this and we do the percentage of the GDP, I think it would be helpful if we include what Ontario's is so that again we come into hard numbers. If Elaine can make a note to do that, I think it would be helpful.

Mr Sutherland: When we talk about percentages, while there did seem to be some consensus, I was struck by Professor Vaillancourt's comment that we need to keep this in perspective. Obviously, in certain areas it's very large—tobacco, alcohol, possibly even home renovations—but you have to take that out and say, "What percentage of the overall economy is that?" and keep that in perspective in terms of balance. I just want to ensure, and I think that's reflected here in the comments, that we

keep that in mind. I guess it reflects the problem that we had a lot of experts in, and even they were having a difficult time getting a clear handle or a sense of where it was. I think most of the presenters indicated that there are a lot of variables associated even with the models they were putting forward, which means it could be worse or it could be better.

The Chair: Any further comments on the topic, the size of the underground economy?

Mr Sutherland: Yes. Under the construction sector, there's reference made to the Ontario Home Builders' Association. I wasn't here for the presentation, but I did read through it. I don't know whether it has to go in the actual report—maybe as a footnote somewhere—but some details about their survey. When I read through their presentation, if I remember correctly, it said they mailed out questionnaires and received back a very small number. Given the number of members and the very small number received back, I didn't think it gave us very accurate information, so I would like at least some reference to how their survey was done. Whether that's done simply in a footnote so that people can see that—if I look at those numbers, they seem very high. I'm not an expert on survey methodology, but it didn't seem it was the most complete or accurate process for surveying.

The Chair: I have a question for the research officer. Ms Campbell, I noticed that footnote on page 9 about the LCBO and the report about bottles seized. There was a recent communication, I believe, from Mr Brandt. That's what that refers to? Okay, that answers my question.

The next heading is "Reasons for Concern."

Mr Phillips: This is another place, Mr Chair, where it would be useful to have some estimate of the size of the revenue losses as a result of the underground economy. I'm repeating myself a little in what I said earlier, but when we discussed graph 1 with the ministry officials, they indicated they would try to get us the numbers.

In terms of the 10% drop, I think we all know the old nominal thing was that you get 90% of nominal GDP revenue coming in, and we saw nominal GDP steady for about three years but tax revenue dropped 10%. So there's the potential for a \$2-billion to \$3-billion number in there as a result of something happening, and that's where, if we can get the ministry officials' estimate, I think that should be an important part of it.

I agree with Mr Carr that people's eyes just glaze over unless you say: "Listen, you pay another \$500 or \$1,000 a year in taxes to make up for what somebody else is not paying. If you get a \$4-billion revenue shortfall as a result of that, it's about \$500 or \$600 a taxpayer that somebody else is making up."

1450

Mr Carr: To follow up on what Gerry said, I think that's one of the problems we've got with the whole issue: A lot of people think it's okay to do it so they turn a blind eye; they know somebody's who's got renovations or whatever. I don't know how much impact our reports can have on the public, but if the public realized what Gerry said, that when this happens it means you pay more, I think it would be very helpful. One of the things

I think we can do with this report is to help highlight the issues, and I would just encourage that we do it and be very specific in what we're laying out.

The Chair: So under the "Social" part of "Reasons for Concern," there should be a further explanation of what some of the social implications are. I believe that's what I heard.

Mr Phillips: I meant that when we talk about the economy, what is a reasonable expectation of lost revenue as a result of the underground economy, and therefore—

The Chair: What does that mean for an individual?

Mr Phillips: Yes.

Mr Sutherland: On "Reasons for Concern," in some ways we've made reference to it where it mentions health risks of illegal alcohol, but maybe lack of warranties and those normal consumer protection things should be highlighted a bit more, maybe in a separate paragraph.

Mrs Haslam: Following up on that and on what Mr Phillips said and going back to what Mrs Caplan said, in the same vein, when you talk about seeing it as a health issue, perhaps we should draw attention to another area and talk a little more about the social aspects and how programs are hurt to a great extent. If we're going to get this information out, then let's have that in the report, that programs like health care and education and post-secondary education and other programs we have are in jeopardy because of the lack of revenue because of the tax falling off on some products. Somewhere within the social aspect I'd like to see some mention of the hurt it's going to cause certain of the government programs if the revenues are not there, and those are health issues and education issues.

Mr Carr: I'm going to throw this out for people like Mr Cleary and so on with the situation in Cornwall, because it wasn't included. I don't know whether the committee feels there should be any specific recommendations in light of the problems there. I just throw it out because if we want to do that, this would seem to be the place to do it, as we are talking a bit about crime; if there are any recommendations, this would be the place. I don't know whether they just want to reinforce some of the government initiatives by putting it in here. I wanted to make note of that in case anybody had any thoughts on it.

Mr Sutherland: Issues of public safety obviously affect Cornwall, as they do other areas. The one area we don't have any comments on is what existing enforcement mechanisms are. I don't know whether reference to that fits under any of the headings we've developed so far. Most of this was trying to identify the problem, but maybe we should have a separate heading somewhere in the report. We talk about enforcement compliance as part of the corrective actions, and maybe we should highlight somewhere what the existing enforcement is.

Ms Campbell: That was actually a question I asked in the body of the paper.

Mr Sutherland: Okay, sorry.

Ms Campbell: It concerned the updates that were provided by Ministry of Finance personnel as well as

people from the LCBO and the OPP: Did the committee want to include the initiatives that were described to the committee during the hearings inserted in the report?

Mr Sutherland: I think it would be positive, again for people looking at it, that there are some things being attempted right now. They should be highlighted, and if people think there should be more, then in the recommendations they should be put forward. Somewhere in the report and I'm not sure under which of the headings it would go, I think some of that would be helpful.

The Chair: Any further comments on "Reasons for Concern?" I know we're looking at all aspects of the underground economy, and cigarettes and alcohol were two aspects that were raised and certainly are of a lot of interest because of all the associated problems with those two commodities.

One thing that wasn't raised in "Reasons for Concern," and I don't know how relevant it is or if this is the place to raise it, is the fact that particularly with cigarettes, and I guess this is applicable to alcohol as well, there has always been the issue that taxes collected on that particular commodity are collected to help pay for the health care of the people who smoke. That's a very general comment. Maybe Ms Caplan, who was previously the Minister of Health, would have a comment on how taxes collected on cigarettes in particular go into general revenues and help pay for increasing health care costs for those people who are afflicted with diseases as a result of having smoked.

Mrs Caplan: I'd be happy to make a comment. In fact, there are no designated revenues. I think it would be unfair to let anybody assume that taxes raised from cigarettes are directed to pay for cancer-causing illnesses. That's not really what happens.

Where tobacco taxes have been effective was presented I think particularly well here at this committee by the Addiction Research Foundation, which presented all kinds of evidence that said that taxation policies have done more in the prevention of smoking and therefore the lowering of costs. That's where taxation policies have been more effective in the relationship between tobacco and health.

The reality is that you couldn't put enough taxes on tobacco to pay for the devastating effect on the health of the individual, as cancer, heart disease, emphysema, respiratory problems and so forth have a huge cost to society and we know that there's a direct link to tobacco use. While we might like to justify tobacco taxes on the basis of increased health expenditure, the reality is that today we're spending \$17 billion on delivery of health care services in the province, and in my view, as a former Health minister but also as a legislator, our best defence against future rising costs is to do what we can from a public policy point of view to encourage people to not smoke, to not start or, if you do smoke, to quit smoking. The use of taxation policy is just one tool to see how you can accomplish that. I think we would be misguided if we just assumed that we could raise enough revenue to pay for the damage that tobacco does to the health of the individual. I don't know if that's quite the answer you expected, Mr Chairman, but I think it's a

reasonable and realistic answer.

The Chair: That's very good. I'd just note that recently in the media, I'm sure we've all heard the reports about Quebec lobbying the federal government to reduce significantly the taxes on tobacco. I don't know whether that's worthwhile, but certainly that's going to put pressure on the province of Ontario as it applies taxes on its tobacco here.

1500

Mrs Caplan: Just as a further comment to that, again I refer to the brief from the Addiction Research Foundation. I think the evidence that they present as to the impact of taxation is very important, and I hope the province of Quebec would have a chance to review the material from the Addiction Research Foundation, which is considered a national resource.

The point the Addiction Research Foundation made was that while it might appear easy as a solution to reduce overall taxes, the solution it recommended was looking at the excise tax, because it was the differential, the cost of export cigarettes that were being smuggled back into the country, that was a significant part of the problem. The other was to encourage the United States actually to look at a healthier public policy by increasing their tobacco taxes so that the profit in smuggling would be reduced.

While I understand those who would argue that smuggling and the effects of tobacco sales on the underground economy are easily fixed by adjusting the taxes, my concern is that that's a very simplistic response and that in fact that's a symptom of a much greater problem which we were discussing here at the committee for a few days. I would hope that we could solve the smuggling problem and that it would take the cooperation of both levels of government to be able to do that.

One of the concerns I've had is that the provincial government recently has just been doing finger-pointing and saying, "We can't do anything without the federal government" or "It's the federal government's problem." In fact, I think it's everybody's problem. It's not just a question of collecting additional revenues; it really is the behaviours that people are engaging in which are so destructive in our society. The concern that I have about tobacco use in general is that we've been very successful in Canada—and I'm now talking about Canada, not just Ontario—in having the trend in the right direction, which is through policies at different levels of government and governments across this country. Canada now is the leader in the world in seeing a decline in smoking.

If we were to do anything that would reverse that trend, I think we would be doing a disservice to the public interest and ultimately to the cost of health care. So I would caution those who would suggest that it's as simple as reducing taxes, although that seems to be an attractive solution at first glance.

Mrs Haslam: I agree with you fully on that. I was trying to find it here among my papers, because I'm doing a lot with non-smokers' week in a while. But I remember reading something from the Non-Smokers' Rights Association or something in my notes that said the

taxes from tobacco fall billions short of what we spend in health care in related illnesses; not just in the cancer, but they took into consideration all of the other illnesses that result from firsthand or secondhand smoke. We are billions short in the health care budget according to what we bring in on our sin taxes or our smoking taxes.

So I agree fully that that's not the solution. I would hate to see us go back to previous levels of smokers and seeing it increase in the young people. I think there are many ways we can address this, but I have a concern that this would be a simplistic way of doing it.

The Chair: If there's no further discussion on that topic, then we have "Contributing Factors" on page 15.

Mr Kwinter: At the bottom of the page we have the same situation that I've been commenting on throughout these hearings. I think the intent, certainly at the hearings, was that the idea that we had technological developments and globalization was viewed as facilitating tax avoidance through intercorporate transfers. I don't think anyone was implying that these companies were doing anything that was illegal. They were doing things to minimize their taxes in any given jurisdiction, and to suggest it would facilitate tax evasion is to imply that the companies were doing things that were illegal. I don't think that was the intent of the comment or the situation that took place at the committee hearing.

Ms Campbell: So you would like the wording at the bottom of page 15 changed so that it does not—

Mr Kwinter: Just change "evasion" to "avoidance."

Mrs Haslam: Yes, but it was viewed as facilitating. It didn't say it did; it just said it was viewed as facilitating tax evasion.

Mr Kwinter: No, it wasn't. That's the point I was making. My interpretation was there was no hint that it would facilitate these companies doing illegal things. What it would do is allow them to pay taxes in a jurisdiction where the taxes were lower as opposed to paying taxes in a jurisdiction where the taxes were higher, but that is not illegal. If they can do it and if they can do it legally, then it's tax avoidance. That's what the comment said, that with the new technology and with the globalization, it allowed companies to organize their affairs where they could pay the least tax that they had to, but there was nothing illegal implied in what they were doing.

Mr Phillips: On another matter, the thing that struck me when I was listening to all the testimony was that I had this feeling in the pit of my stomach that the reasons for the underground economy growing are not clear. For example, a lot of people said that the GST coming in has driven the underground economy up dramatically. I had this feeling in the pit of my stomach that that merely somehow or other gave an easier way to participate in the underground economy as opposed to necessarily driving people into the underground economy. If I were writing this personally, in the opening paragraph under "Contributing Factors," I'd say that, based on the testimony, we don't know the reason it's growing dramatically and we can only speculate. What you've got is the speculation of the presenters and it's clear that we don't have a firm

hand on the reasons for it, but the following are what we heard in the testimony.

I think this is a reflection of what we heard in the testimony, but I was struck by a lot of things, including one of the ministry officials saying the biggest loss of revenue in the underground economy is in the income tax area. What I took from that, and I've seen evidence of this, was that people who supply services use the GST to co-opt people into becoming willing partners. Once you say, "I will pay cash and not pay the GST," then the person who gives you the service says, "Great, now you can't blow the whistle on me, so I won't report that as income."

I'm just saying I think these things are maybe more subtle and more sophisticated than just what we heard. If I could do it, I would put, "We don't know, we need more research, we need more evidence, but here's what the witnesses reported." And they did report these five things to us, I think.

Mr Sutherland: I guess in terms of when you put the title "Contributing Factors," it doesn't mean that any one is the exact reason. Mr Phillips, you used the term "speculating." I believe we did receive some evidence, maybe not only from the Ministry of Finance but also we talked about Roger Smith's presentation that there was some more tangible evidence that since the implementation of the GST the problem has grown.

1510

Whether you say it's the GST itself or whether that's just an accumulation of different tax policies coming out in that one, I think we can say there is some substantial evidence or some work that has been done that would cite more than just speculation on the issue. If we're putting them forward as contributing factors, I don't think we can say that there's any one specific reason that's leading to it but a series of factors, and some of the presenters have put forward some evidence.

Mr Carr: The point I want to make, and I know the tax system has its own section, but I think there should be some recognition that governments at different levels forget this. The problem isn't with any one level of government; it's the accumulated total. I know there's been a lot of finger-pointing of whose fault, whether it's federal, provincial or municipal. I think somewhere in there under the causes we should put that it's a cumulative effect and governments at all levels have created it, because, as you know, any time we talk about high taxation levels with the government, they'll compare it to Ohio in a certain category where we do well and say, "See, we compete there." I think the public is smart enough to realize the problem we've got is that it's a bottom-line total in taxation. It's non-political. It's been governments at all levels and all political stripes that have got us into this mess, and I think a recognition of that by this committee would be helpful.

I guess I'm jumping ahead when we get into taxation, but I would like to be more specific, to say it's the general levels of taxation that are paid at all levels. It's the personal income tax, as Gerry mentioned, because that I think has been a big, big factor. It's been surtaxes that have been put on. It's a percentage of the federal tax

rate that's gone up dramatically. I think in the old days a lot of people didn't realize. They're now starting to appreciate because it's coming farther and farther down into the middle class. In the old days, nobody cared about the surtax. Now it hits you at about \$53,000, which is the average Ford worker in Oakville.

To be fair about this in a non-partisan way, I think this committee should recommend specifically that it's all this taxation and that it is the bottom level—not to point fingers at any particular level of government, but just a plain recognition, which I think the public has—it's the bottom-line total that has created the problem and you can't blame the federal government or the provincial or the municipal. In my own region, one of the biggest factors now will be some of the municipal taxation driving them away. It's a bottom-line total, and I would like to see some recognition that the taxation levels are too high, bottom-line total. I don't know how Elaine could word that, but I think that would be very helpful.

Mr Sutherland: The researcher has pointed out, what level do members want of the following? I think some of the elaboration on those levels of taxation in comparison with other jurisdictions would be relevant. If we remember the one presentation from the chartered accountants, as they said, if you add up the taxes here, yes, they're a bit higher, but if you compare them to the States and then you take in what they have to pay on health care, which is covered by taxes here, there isn't a significant difference in the overall rate of what businesses—

Mr Jackson: Is that with or without the employer health tax?

Mr Sutherland: It was with the employer health tax.

Mr Jackson: He clarified that, did he?

Mr Sutherland: So when we're making those types of statements and saying it's all an accumulation of taxation, obviously people are concerned about how much they're paying in taxes, but maybe for the purposes of the report it wouldn't hurt if we had some of that more detailed information provided on some of the topics that have been outlined in bullet points here by the researcher.

Mr Carr: What I'm sensing—Kimble, correct me if I'm wrong—is that there is a bit of a difference. What you seem to be saying is that there aren't the levels of taxation, because then you get into looking at government programs and you can argue that all day. We have more programs than the US. I think we've come to a fundamental difference here, and correct me if I'm wrong, Kimble: You don't seem to think the taxation levels are too high. Just by what you say, they're pretty close to the US. I think they're disgustingly high.

Again, not to point at anybody, this may be one area where we can come to agreement—and it's only my own opinion, we can agree to disagree—but I think the fundamental problem we have with the underground economy is that taxes at all levels are too high, and if we can agree to disagree, then we can put that in there. That's the sense I got from the people coming forward. If you didn't get that, fine, we can disagree, but I really got the sense from people that the taxation levels are too high, whether it's municipal, provincial or federal, and

they will do anything to avoid taxes. They don't think the federal government spends it well under the Conservatives. They don't think the provincial government does under the NDP. They don't think the municipal does. That's why we have the taxation problem.

I'd like to see a clear statement of it in there, because I firmly believe, and you can disagree with me, that that's what we heard from the people who came in.

Mr Sutherland: I think there are two responses to Mr Carr. Certainly the perception that taxes are too high for services being provided, I won't disagree that there is that perception there. I think the other thing that Mr Carr is getting at is probably something that should come under the recommendations section when we get to that point of deciding what recommendations we want to put forward, whether we'll go for trying to find consensus on recommendations or whether we'll ultimately say that each of us will put forward our recommendations and they'll be listed there.

Mr Carr: Mine was just recommendations, whether we call for a tax freeze or reduction or whatever. I think under this section, we have to have a heading that a reason or contributing factor is the recognition of the fact that taxes are too high.

Mr Sutherland: The perception that taxes are too high for services provided.

Mr Carr: Yes. You can call it a perception if you want. I would have no problem doing that. I just think there needs to be a recognition in there, before we start saying that we're going to freeze taxes or lower taxes or whatever, of the contributing factor. I think we may have hit on a consensus that the contributing factor is the perception is taxes are too high. We don't need to blame the provincial government. It's bottom line I think that's doing it, and I think that could and should be included in there under this contributing factor.

Mr Wayne Lessard (Windsor-Walkerville): I wasn't present during a lot of the presentations but one I did see was from the Association of Canadian Distillers. One of the points that they made wasn't just that taxes were too high but there was some unfairness in the taxation with respect to distilled spirits vis-à-vis beer and wine. I know there was testimony from Mr Brandt about sales decreasing at the liquor control board stores which sell beer, wine and distilled spirits, but I think that as far as the underground economy goes, there may be a distinction between those different elements. I don't think there was any discussion about beer being a large segment of the underground economy, for example, but wine and distilled spirits certainly are.

I'd like to see more information that was provided from the distillers' association in here with respect to not so much a tax comparison for beverage alcohol with other jurisdictions but also the difference in taxation of beverage alcohol, wine and distilled spirits, because it may be possible in one of the recommendations we make—this was suggested by the distillers—that there be changes in the levels of taxation only with respect to distilled spirits. I think that information would be helpful in considering some of the recommendations for corrective actions that we may make.

1520

The Chair: Correct me if I'm wrong, but didn't part of their presentation suggest that taxes be levied based on the amount of alcohol in the beverage?

Mr Lessard: The alcohol content, yes.

The Chair: Any further comments on this section of the report?

Mr Phillips: Somebody's going to have to write this.

Mrs Haslam: So far we've upped it about 30 pages.

Mr Sutherland: Have we given enough direction?

Mr Phillips: Yes. I'm trying to be, as they say, helpful here. I heard several comments from the presenters, and the one I think we all are agreed on is that there is a perception that taxes are high in Ontario or in Canada and that somehow or other that gives you a right, if you perceive them as being higher than elsewhere, to try to evade them.

I think on the tobacco one, I'm not sure people internalize what the problem is. They just know that the retail price of a smuggled pack of cigarettes is dramatically lower than of an Ontario-bought pack. That happens to be driven I think heavily by taxes, but also by tax avoidance by people who smuggle. Unless we find ways that the price differential between a Canadian and a US pack of cigarettes be narrowed, we're probably going to be pushing water uphill on that.

I think there was a point around the way that the GST-PST met to infuriate people. I can recall five or six presenters saying that when the GST came in the way it was, the combination of it somehow or other was one that drove people to rationalizing getting out of it. Then there was the fairness and compliance one.

I don't know where that leads me other than trying to say that on the tax system there may be four points: One is that there's a general malaise about the level of taxation, not necessarily factually based but certainly clearly felt, intuitively; secondly, there is a huge differential between what people pay on certain products in the store and what they can get them on the street for, and that's heavily in tobacco and alcohol I think; thirdly, the combination of sales taxes seems to have been a stimulus to people to get involved, and then the fairness and compliance one. I think we did hear from people saying that there are a lot of people out there who believe, "Other people are getting away with it and therefore I should be investing some time in getting away with it."

The Chair: Any further comments?

Ms Campbell: I'll ask one question on the items listed here on page 17. Am I led to understand that members are fairly content with the bullet points that are listed here? Is it worth expanding upon those points, or are there some points that should be deleted?

Mr Sutherland: We had some comments about visible and invisible tax. Could some reference be made there? I don't know whether that goes under the GST section or whether that might come under "Fairness and Compliance" or just under general "Levels of Taxation," but somewhere in that, could the comments about a visible and invisible tax be reflected?

The Chair: Certainly, the question is posed in your first draft here, on page 17, "What level of detail do members want on the following?" I know clearly there has been a lot given with regard to those bullet points that you've raised, but I do think when we get to "Corrective Actions," that's certainly where there will be a dividing of the ways, I suspect, as we try to come to some consensus. Or maybe we won't ever come to a consensus on what we think needs to be done with regard to the bullet points under "Corrective Actions." It may not be necessary to go into a lot of detail with regard to the tax system as it's indicated on page 17 because I expect that the members will have a lot to contribute with regard to "Corrective Actions" and "Taxation" when we get to that section.

Would that not be a good read of what's probably going to happen?

Mr Phillips: I'm satisfied with that. As I say, if I were writing and that had four sections, then one would be general level of taxation and then, secondly, the enormous difference in the price between what you pay in the store and what seems to be readily available for tobacco, and that is partially taxation and partially a smuggling issue. Then the third thing would be the combination of the two sales taxes, the GST-PST angle—when those things came together that seems to have driven, according to a lot of witnesses, people much more heavily—and then the fourth would be the fairness and compliance.

Ms Campbell: I'm just wondering if the members want a great deal of detail on what goes into tobacco and beverage alcohol taxes, the makeup of each of those.

The Chair: The breakdown of the taxes?

Ms Campbell: In terms of federal and provincial.

The Chair: Yes. If there is nothing further on "Contributing Factors," the next probably is the most interesting section of the whole report, and that will be "Corrective Actions."

Mr Kwinter: I thought you were going to get to the "Perceptions of Government." One of the things that I'd like to see included is certainly a perception that I have gleaned from talking to people, not necessarily at these hearings but just talking to general citizens about their reaction to the underground economy. There's a perception that they're paying an inordinate amount of tax for what they consider to be less service. As a result, they don't look upon their participation in the underground economy as being anything that is illegal because they say: "We're paying what we consider to be excess taxes. We're not avoiding that; we're paying that. But somewhere along the line we have to try to mitigate these high taxes by trying to save some money so that we can survive."

So they pay their taxes on the one hand, but then go out and try to make whatever money they've got left go as far as they can and feel no compunction about it at all, have no feeling of guilt or illegality about it. They feel it's almost their duty to their families and to themselves to go out and do this. Again, it isn't a matter of saying: "I'm not going to pay the government taxes. I'm paying

them their taxes. I'm paying them absurdly high taxes but I'll never be able to survive and the only way I can survive is I got to go out and see I can make do and get the most that I can with what I've got left."

How we address it, I don't know. But I think we have to acknowledge that, because it's something that certainly keeps coming up in conversation after conversation.

The Chair: I've heard similar comments in speaking to people as well, and certainly when you can no longer avoid taxes then it becomes likely that you may evade taxes in order to make ends meet. I don't think that's a new phenomenon. I think it may be increasing in popularity, however.

The next section is "Corrective Actions" and I would just like to make one comment before we start. Under the "Sector Specific" section on page 19, one of the commodities that was mentioned that I found most interesting and I'm sure all the committee members will remember was the jewellery section. It was maybe not as significant in Ontario as it is in Quebec. Under "Sector Specific" it's not mentioned but there's an underground economy in jewellery that is not new but exists. I just wondered if other committee members would think that would be one commodity that might be worth putting in there.

Mr Sutherland: I'm just trying to recall. I'm not sure we got a lot of recommendations on corrective action on that one. That would be the one point.

The second point and while we are dealing somewhat with federal, I got the sense, if I remember correctly, that a lot of it had to do with federal—because if I remember correctly, they import the raw stones and they have to pay excise taxes on the raw stones or something like that. That was only my recollection, but it may not hurt to have it referenced just to show to people, because the three sectors that are mentioned here are the ones that have received the most attention, and I don't think enough attention has been given to other sectors, so it may not be a bad idea.

1530

The Chair: That's why I thought it might not hurt just to mention it as a bullet point; whether we choose to elaborate on it or not or indicate any specific corrective action, at least have it in there.

Ms Campbell: The committee also had a presentation concerning taxes on fuels, which is indirectly related to jewellery, and both issues were raised during the course of the hearings. Would the committee like specific reference made to jewellery and fuel taxes under the section dealing with the size of the underground economy? When specific reference is made to construction, beverage alcohol and tobacco, perhaps in an introductory paragraph make reference to these other sectors that were represented as well.

Mr Sutherland: Sure. That would be good.

The Chair: Well, the floor is certainly open to, no doubt, a great amount of ideas with regard to how we can correct the problem of the underground economy.

Mr Sutherland: I guess what we've got before us is the list of, under here, what we'd be asking the researcher to do: elaborate on these points based on what was

presented. Then out of that would come, as a separate section, I would take it, the recommendations of the committee, yes? So under "Corrective Actions" we're asking the researcher to do a summary of recommendations we heard from the presenters. Is that your sense, Mr Chair, as to how things would proceed?

The Chair: I'm in the hands of the committee. If that's what the committee believes should happen, then certainly that's probably what will happen.

Mr Lessard: Excellent suggestion.

Mr Carr: So what you're suggesting is a summary of what you heard.

Mr Sutherland: Yes, and then a separate section, as with most reports, recommendations or whatever. As we mentioned earlier, this process is similar to what we did on cross-border shopping. I believe we did the same type of thing. We listed the recommendations of what action should be taken or had a summary section on what was presented to us, and then there was the final section on recommendations.

The Chair: Well, let's pick the topic of taxation, two bullet points there: harmonization of GST and PST, that is a political decision that will be made by the government; and lower tax rates and broader bases, that's an interesting proposal, and I'm sure that the implications of that are quite profound as well. But if there's no more specific direction with regard to how the research officer should continue, then I heard what Mr Sutherland said, and that would seem okay.

Ms Campbell: Committee members will notice that on page 18, the first paragraph under "Corrective Actions," the last sentence in that paragraph, "Members may wish to make additions or deletions, or focus on those that might become committee recommendations." I guess that statement was made anticipating the possibility of the members wanting to perhaps focus on two or three of these points and then have that lead to recommendations, or would the committee like to have reference made to each one of these points and then maybe focus on two or three of those in recommendations?

Mr Kwinter: This gets back to my opening statement when I arrived this afternoon. When I read through the report, I got the feeling that there weren't enough specific corrective actions. We need more meat on the bones of these particular bullet points. If we could get a compilation of the various corrective actions that were suggested by people appearing before us for these various things and we could say these are corrective actions that were suggested, whether it's by the LCBO, whether it's by the Ontario Home Builders' Association, whether it's by whatever group, and list all of those, and then we as a committee can make recommendations based on all of the suggestions that were made to us. I think that's what Mr Sutherland was saying.

Mr Sutherland: Yes, and I believe we do have a list of recommendations or we were provided with that earlier.

Ms Campbell: There was a summary provided.

Mr Sutherland: Yes, a summary of the list of recommendations that we all received at some point.

Ms Campbell: I must admit that the summary you were handed some time ago was very general.

Mr Sutherland: Yes.

Ms Campbell: There were much more in the way of specifics contained within the briefs.

Mr Carr: How long would it take to put that together, since it's already there? Any idea?

Ms Campbell: I could maybe get a list ready for tomorrow's meeting.

Mr Carr: That's what I was going to suggest, and then once we've had a chance to go through it, each of us can then decide which ones we'd like, if we can get consensus, and if we can't, to make the suggestions. I just wanted to make sure it wasn't that difficult by tomorrow, but if you've already got a summary, it probably will be a little bit easier.

Ms Campbell: As I said to Mr Sutherland, the summary was more in the way of general recommendations. There were, certainly, very specific points that were included in greater detail in the briefs.

Mr Carr: But it could be done for tomorrow then.

The Chair: I believe that we're getting close to concluding our directions for the research officer and I'd like to ask Ms Campbell, will you be able to have this ready for tomorrow morning? Is that an unreasonable request?

Mrs Haslam: Not if she works all night.

The Chair: Would you prefer to come in the afternoon?

Mr Carr: Mr Chair, she's already said yes. Don't keep asking her.

The Chair: Just to be fair. I don't want to unduly, nor do the committee members want to unduly, put you under stress.

Mrs Caplan: Oh surely. Why should we be the only ones under stress?

The Chair: And in order to have only the very finest and best report brought back to us, would it be better that we meet in the afternoon or will you be able to have this ready?

Ms Campbell: I could have a list ready for distribution tomorrow morning, and perhaps the members could have a chance to look at that before meeting in the afternoon. Is that feasible?

The Chair: That sounds good, if that's agreeable to the committee members.

Mrs Haslam: Obviously, we've gone through page by page with additional comments. That would also allow you to come forward with draft number 2 with some of the changes in place, a list under corrective actions as a review, and then spend—

Ms Campbell: I certainly couldn't promise a complete draft but I would certainly have a list together of the points that were made by the committee members and review those with you to make sure that they are what you want included.

Mr Sutherland: Given that, obviously, practically, draft 2 cannot be done for tomorrow, do we have another

day scheduled after tomorrow to deal with this?

The Chair: Not at this time.

Mr Sutherland: Okay, because I wouldn't mind taking a look or having the committee—even if we can somehow squeeze some time in at some point. I don't know when we'd be able to do it or when the committee would—I guess it depends.

The Chair: I just overheard the clerk say there might be an opportunity to do this at some time. Again, I must add that the subcommittee today is going to deal with about five individual requests to come before the committee for pre-budget consultations, and as they are assigned times on the roster, that may raise problems.

Clerk of the Committee (Ms Lynn Mellor): We have the last two days for report writing after the pre-budget, and it will probably take the morning of the first day to finalize this report and then you'd have a day and a half for the pre-budget report writing. Then I was going to raise a question to the subcommittee members about meeting regarding the final draft of the pre-budget on February 14, which we'll get to later.

The Chair: It does appear, then, that if we can't conclude this report, absolutely, tomorrow, then we will have an opportunity on—what date is that?

Clerk of the Committee: February 2.

The Chair: On February 2 to go over it finally. Is that agreeable to the committee members?

Mr Sutherland: It shouldn't take too long.

The Chair: If I understand correctly then, there will be no need to meet in the morning tomorrow except to pick up copies of the information that would be supplied by the research officer.

Clerk of the Committee: If we get it by 11:30 and then copy it and give it to messengers, it might not get into your offices before you'll be coming here. Has anyone any suggestions?

The Chair: Seeing as how we're scheduled to be here anyway, and I suspect that most of us will be around.

Mr Jackson: Why don't you get it to the three caucus offices and then it could be distributed there with telephones. That's probably the fastest way.

The Chair: It really is incumbent upon the members to pick up this information wherever.

Mr Jackson: The caucus office is usually the best way. Do you think you can send us that?

Mr Sutherland: What time line are we looking at in the morning? Are we looking at 11?

Ms Campbell: I could probably get something delivered to the clerk's office no later than 11.

Clerk of the Committee: You can pick it up in my office, room 1405.

The Chair: Copies of the report, as revised, will be available in room 1405 in the Whitney Block at 11 am.

Mr Sutherland: Just the recommendations.

Ms Campbell: It won't be the revised report.

The Chair: Oh, I'm sorry. I stand corrected.

The committee adjourned at 1542.

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**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Jackson, Cameron (Burlington South/-Sud PC) for Mr Cousens

Clerk pro tem / Greffière par intérim: Bryce, Donna

Clerk / Greffière: Mellor, Lynn

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**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Underground economy

Économie clandestine

Chair: Paul R. Johnson
Clerk: Lynn Mellor

Président : Paul R. Johnson
Greffière : Lynn Mellor



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 18 January 1994

The committee met at 1409 in the St Clair/Thames/Erie Rooms, Macdonald Block, Toronto.

UNDERGROUND ECONOMY

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. We are continuing today with the subject of the underground economy and reviewing the second draft report that's been presented, which at least the members of the committee had an opportunity to review, I believe, before this meeting today.

Mr Gary Carr (Oakville South): I want to thank Elaine for the work. I know we don't take enough time to say thanks and I know that to put that together in such a short period of time—so before we went on I wanted to thank her for the amount of work that was done. She probably worked very late and probably early in the morning to get it done. I want to thank her for that and let her know that I think I speak for all the members of the committee when we say we really appreciate the fine work she did in such a short period of time.

Mrs Elinor Caplan (Oriole): Excellent, even though I might add that we're probably going to recommend all kinds of suggestions on it.

Mr Carr: You did such a good job we're going to make you do it again.

The Chair: Thank you very much, Mr Carr, for those remarks. I'm sure everyone on the committee agrees with what you had to say with regard to Ms Campbell.

We have "Draft Report on the Underground Economy" with the proposed changes and a list of corrective actions as they were directed to the research officer yesterday by the committee members. As I was saying, I believe the committee members have had a chance to review this second draft report. At this point in time, the Chair would like to hear any comments, and I'm sure the research officer would like to hear any comments. Maybe the research officer would rather hear no comments. Ms Campbell would like to make some comments.

Ms Elaine Campbell: The document that was distributed this morning is not an actual repetition of the draft report that was distributed late last week. It contains the changes to the first five sections of the draft that the committee came forward with yesterday as well as an expanded sixth section on corrective actions.

Mr Kimble Sutherland (Oxford): I notice there are still some questions that I believe the researcher would like the committee to respond to in the first few sections. I notice there are a few here in italics, so maybe we should deal with them first before we proceed to the recommendation stage.

The Chair: Indeed, that sounds like a good direction. I believe that would then take us to page 2 of this.

Mr Sutherland: There's one question on page 1.

The Chair: Yes, you're absolutely right. I just

happened to realize that my particular copy has been stapled incorrectly, but that's okay. My page 2 would be your page 1, so yes, you're right.

Ms Campbell: On page 1 of the document distributed today, under the heading "Definitions," there is a question in italics. Before getting to that though, the committee had asked that the introduction to this particular section be reworded in such a way that it recognized that the committee was going to focus its attention on the issue of tax evasion as opposed to tax avoidance. The committee felt that the definition provided by the Ministry of Finance most closely reflected its feelings about the issue.

My question concerns the other definitions that are discussed in the draft report. Does the committee wish that they continue to be included in this section or would it be better to have them taken out? Actually, it's not entirely definitions. There is a bit of discussion about tax evasion versus tax avoidance and the issue of bartering.

Mr Sutherland: I have no problem with the references made by the other experts. I think it's good to show their commentaries if not everyone has the same definition. For whomever may read this report in the future, the more knowledge or information they have, the better.

Mrs Caplan: Are italics to distinguish someone else's definition or is that just the changes?

Ms Campbell: On what page? On page 1?

Mrs Caplan: In the new report you have some—

Ms Campbell: Oh yes, those are questions that I wanted the committee to deal with. I felt I needed further instruction.

The Chair: Any further comments with regard to the definitions? Are members in agreement with the direction that the research officer is taking us?

Mr Gerry Phillips (Scarborough-Agincourt): I think it's fine. I agree with Kimble that having the other ones in is useful just because, as I said yesterday, I found that it helped me to kind of focus on the underground economy and then the informal economy. They tend to blur at the edges to an extent, but I think it's useful to have it in there.

The Chair: Then it's agreed that the other paragraphs in the section of the draft will remain in the report, right? Okay. The questions posed by the research officer on page 2 with regard to tobacco: Ms Campbell.

Ms Campbell: I must apologize to the committee. I failed to include in the original draft any reference to the issue of copycat cigarettes. I think it was the Ontario Flue-Cured Tobacco Growers' Marketing Board that discussed that issue with us at great length. I just want to confirm that the committee would like some reference to that particular aspect of their presentation as well as the issue of offshore production included in this section of the report.

The Chair: It appears there's no disagreement.

Ms Campbell: I had a second question regarding the tobacco heading under "Key Economic Sectors." Brief mention was made of the Akwesasne First Nation territory in the presentation by the OPP. I hadn't gone into a lot of detail about the alleged involvement of that particular group in the production and sale of contraband goods. Would the committee like more said about that from the testimony of witnesses or should we keep it the way it is?

Mr Sutherland: I would think some general reference to the issue of the difference in taxation due to treaty rights of natives in a general way should be made reference to in that there is some evidence that because of that and because of the unique geography of the Akwesasne reserve, there are some—I don't know what the best way describe it is—routes that are going through there. Some general reference should be made to that.

The Chair: Any discussion? All members in agreement? On page 3 there are some questions posed.

Ms Campbell: Yes. Under the subheading "The Economy" under "Contributing Factors" on page 3 there had been a request made to take out the reference to tax evasion in the third paragraph. It was requested that the word "evasion" be replaced with the word "avoidance."

My question concerns the paragraph immediately before that. Now that the committee has clarified the definition that it would like to use for its examination of the underground economy, and because it has chosen to focus on illegal activities, I'm wondering about these two paragraphs, which discuss activities which may be considered by many to be legal activities and involved in the issue of tax avoidance as opposed to tax evasion, whether it's necessary to include them in the final report or whether they should be left there for the purposes of setting a context or putting the issue in context.

1420

Mr Sutherland: I'm just giving it some more thought. I guess this change comes about due to the concerns Mr Kwinter had raised yesterday, and maybe other members can correct me if I'm wrong.

Mrs Caplan: We will.

Mr Sutherland: No need to state that. That's obvious.

I was left with the impression from the presenters that there are two issues occurring as a result of the technological changes, and one is the tax avoidance, the ability in a legal means to transfer. But I also thought that at least one if not two of the presenters talked about how they thought technology was also leading to tax evasion. I can't remember specifically who the presenters were but I thought there was some reference to that by a couple of the presenters. If there were those references it would seem to me we would want to leave some discussion in about technological change being tax evasion and maybe clarify again in this section the difference between tax evasion through technological means and tax avoidance.

Ms Campbell: So you're suggesting keeping it the way it is but perhaps changing the wording of the introduction, reflecting the fact that the committee recognizes that some of these are quite legal activities as opposed to illegal.

Mr Sutherland: Yes, that some are tax avoidance, but again I can't remember the exact references. If we're able to find that and put in that technological change is also being used for tax evasion, then I think that would be important to note.

The Chair: Obviously everyone agreed with you.

Ms Campbell: I had a second question concerning this subsection. I divided the subsection on the economy into two other sections, "The Recession" and "Unemployment." I'm wondering if it might be wise to combine the two. They appear on page 16 of the original draft. I also wondered if the committee felt it necessary to fill the section on the recession out a bit with more in the way of numerical or statistical information or whether that question could be answered by merging the sections together.

Mrs Caplan: I think it's important to have the section on unemployment highlighted itself, and if there are some data that could be put in the form of a graph, that's often more understandable than just having numbers in text. If we could determine what the data would show as far as impact on the recession is concerned, you could even do an overlay of the recession and job loss.

Ms Campbell: I could see if there was something contained in any of the testimony of the witnesses.

Mrs Caplan: Yes, I think that might be a way of bringing the two together, but I'd leave the written text separate. That's my opinion.

I know the ministry, when it did its presentation, had quite a lot of data and some graph stuff as well and it might be possible for them to assist in putting something together. They probably have a lot of that available.

The Chair: Is that sufficient direction?

Mrs Caplan: Does anybody disagree with it?

Mr Phillips: I agree with Elinor. The other thing I found interesting in the presentations that I thought was part of the solution is that our systems we've built up are quite inflexible in terms of encouraging people to get back into the workforce. I don't know whether as part of the background we want to mention it here, but I thought that was interesting testimony from several witnesses, the fact that we've set a system up that in some respects forces people to go underground, or strongly encourages them, both the unemployment insurance system and the social assistance system.

That's another reason why I don't mind the unemployment one being separate. It's kind of the human face of the recession in some respects. I don't know how the rest of the members feel about a subissue on that, which is that the structure of assistance that's historically been provided seems to be driving more people underground.

Ms Campbell: Certainly, I do recall there being a certain number of people who made specific reference to that aspect.

Mr Phillips: In your indicated action I think there are several. I don't know whether anybody feels uncomfortable putting that in.

The Chair: Okay. That brings us to the tax system.

Ms Campbell: In the original draft there were three

subheadings under the heading "Tax System": "Levels of Taxation," "The GST," and "Fairness and Compliance." After yesterday's discussions, I was left with the impression that there was an interest in perhaps breaking down the section on levels of taxation, keeping the section on the GST as it was but adding in comments on the provincial sales tax, since many witnesses had referred to the two taxes combined as being a contributing factor, and keeping the fairness and compliance subsection as it was.

My question concerns "Levels of Taxation," how the members want that changed or broken down, or is the opinion today to keep it as it is?

Mr Phillips: In the discussion we had yesterday on "Tax System," I think there was agreement by all of us that the introductory paragraph would be useful. That seemed to be an overwhelming perception of certainly the presenters, that the cumulative effect of all taxation is seen as a major source of it. I think you had three sections yesterday—"Levels of Taxation," "The GST," and "Fairness and Compliance"—and I was suggesting maybe there was a way to have four of them, but I don't feel strongly about that.

Ms Campbell: I was just unclear how you wanted the first one broken into two. At least I assume it was a case of breaking that into two.

Mr Phillips: Yes. I don't feel strongly about it. I'm not sure I want to push it. My feeling was that levels of taxation is a big issue. Then I found the tobacco and beverage alcohol one, and I may be splitting hairs here, but it was this enormous difference between the price that you could buy it for on the street versus the price—

Ms Campbell: I understand now. So we could break out the references to tobacco taxes and beverage alcohol taxes, as well as the federal excise tax on cigarettes, and have that as a separate grouping of points.

Mr Phillips: Again, I don't feel that strongly about it, but I found tobacco and alcohol somewhat unique in that obviously there is an enormous difference between what you can buy it for illegally and the street stuff, which is as a result of it coming to you illegally. It happens that the underlying reason for the big difference in price is taxes, but it was a slightly different issue than just taxation to me.

1430

That's why I thought of the four. Then I think there was this, we call it "The GST," but it's of a combined, very heavy, added-on tax that has seemed to have been the catalyst for a lot of this stuff, and then leaving in "Fairness and Compliance," which I believe is more than perception of government.

I think what I remember people saying is, "I, as an individual, think somebody else is ripping the system off and therefore I owe it to myself to get into the game." That's what I heard from people. I don't know whether it is people who are on expense accounts or people who are able to incorporate or whatever it is, there's just this perception.

Mr Sutherland: Should that come under "Levels of Taxation" or should that come under "Fairness and Compliance"?

Mr Phillips: If I can remember some of those witnesses—it was unfairness. Is the system being fair to me? Most people I think feel it isn't, quite naturally.

The Chair: If I remember correctly, as well, when Mr Brandt was here making his presentation before the committee, he talked about beverage alcohol that was for sale on the street versus beverage alcohol that was sold through Liquor Control Board outlets. He said that not only were taxes an issue but the quality of the commodity. He said that the health and safety of the people of Ontario was certainly something we should be concerned about as well, because there was a poorer quality. I guess when you get into producing alcohol all kinds of things can happen that would make it maybe substandard by our government standards. That's another issue that is ancillary to the issue of the additional taxes.

Mr Phillips: My recollection, though, was that we had that in a different section, "Reasons for Concern." I think that was specifically raised in the earlier report and I just don't think you've repeated it here because it's assumed it's in the other report, so I think your point will be handled.

Mrs Caplan: The recollection I had was that this also related to the behaviour of people and that there was a difference in the relationship of the individual to smuggling, which was more in the tobacco and alcohol as opposed to the issue of avoidance of provincial sales tax and GST as it related to small business and merchants, particularly tradespeople, that sort of thing, where people were working for cash and buying for cash. So it was both the relationship of the fairness and compliance and the social acceptance of that behaviour today.

It was related not only to the fairness issue but also, "Everybody else is doing it, so why shouldn't I?" which was one step from where Mr Phillips said it was, not only somebody is getting a better deal out there or, "I don't think I'm getting value for money on my taxes," which were both attitudes that people were having that were affecting behaviour, but there was also the attitude which said, "If this is socially acceptable behaviour, and it seems to be because everybody is so open about it, why should I be doing it differently?"

It didn't have anything to do with the level of taxation. It was the attitude, the social values that we have seen a big change in in the last few years, perhaps as smuggling has increased and people have been doing that. I think there were also presentations which acknowledged that this cash economy has been around for a long time, but there was a sense that it had grown in the last few years because of the way people were feeling, and it was more than just unfairness. People are really angry. They don't think they're getting value for money from government, and when they see opportunities to not pay the tax, they feel good about that. I don't think that's just fairness and compliance, I think it's a real concern about the willingness of the individual to participate.

Ms Campbell: On page 4 of the document that was distributed today, there is a heading, "Perceptions of Government." I wonder if your comments might be more relevant under that particular heading, and perhaps there could be a slight change in the title there. Mr Kwinter

had suggested some changes to that yesterday as well which would perhaps broaden the issue beyond just government. Just leaving the title as "Perceptions" seems a bit odd, but perhaps there's something you could come up that would more accurately reflect people's feelings about government and about social acceptability in terms of these types of behaviour.

Mrs Caplan: Yes, I think that's it and that's probably a good place for it as well. It has to do with how people are feeling about themselves, about their relationship with government and whether they're feeling secure.

What I hear from people who quite openly say they pay cash whenever they can and have no compunction about buying black market cigarettes or alcohol is that they're worried they're not going to have a job tomorrow and they want to buy for the least cost possible. It's the concern about, "Am I going to have a job and am I going to survive over the next little while?" which is changing their behaviours and allowing them to feel okay about doing something they clearly know is not in their own best interest in the long run.

Part of that also is that those same people will talk about the waste in government and the fact that they're not getting value for money and services, that they don't feel they have to give the government any additional tax dollars because it's not spending it wisely anyway.

I think that fits very well there. It's something we have to hear. As much as we don't like hearing that message, we have to hear how people are feeling. If we can reflect that in the document in that place, maybe "Perceptions of Government-Society" or "Relationship between Government and Society" is as good a title as anything else.

Ms Campbell: Just to jump back a bit, I had a question under the subheading "The GST." In the original draft document, there are a couple of bullet points under the heading "The GST." Would the committee wish that those points continue to be points of discussion in the revamped section on the GST and the PST, that is, a little bit more in the way of descriptive information and some of the rationale behind the introduction of the GST and its timing?

Mr W. Donald Cousens (Markham): I think just a little bit more description behind it would be helpful. We understand it but others don't. I don't think you have to be too elaborate for the little bit we'll be doing.

The Chair: It would appear the committee members are in agreement with Mr Cousens. Ms Campbell, do you have anything further you wish to ask on that?

Ms Campbell: No, that section's fine.

The Chair: Okay, the "Corrective Actions" section.

Ms Campbell: The committee had been presented with some bullet point notes in the original draft distributed earlier. At yesterday's meeting, the committee requested more in the way of detail under this heading. The committee also requested that there be some detail provided on the initiatives the Ministry of Finance, the OPP and the LCBO have in place to counteract the effects of the underground economy. There's reference made to that under this heading in the document distributed today.

Because of time limitations I was not able to do a thorough review of all the suggestions that had been made by witnesses, to slot them into headings as appeared in yesterday's document. What I did instead was use the information that was contained in the summary of general recommendations that was distributed to the members just before Christmas. The points contained in that document have been entered under the subheadings that appeared in the draft report that was distributed late last week. This has been done to the greatest extent possible.

There were some new subheadings that will appear, "Overall Problem" and "Government Policies." These are two subheadings that appeared in the document that was distributed last December, and there have been some new recommendations included that were not available for inclusion in the December document.

1440

The Chair: This additional information included in this draft report certainly is a result of the direction the committee members gave you yesterday, and you've said that it's not as comprehensive as you might have made it. However, the committee members have had a chance to review that. Are there any comments with regard to this expanded section of the draft report, "Corrective Actions," I believe it is. As Ms Campbell said, there are now some new headings. Some of the specific comments from some of the presenters have been included in it.

Mr Sutherland: Mr Chairman, it seems to me that there are a couple of ways we could proceed. We could go through each recommendation and see whether there's a consensus to support that recommendation. If there isn't a consensus on that one, then it wouldn't go in as part of the formal committee recommendations. Then, at the end of that, each of the parties would be free to submit additional comments and reports, or we could just go from the view that we've got the recommendations and that each of us can submit our own reports on which ones we think should be adopted, what rationale and establish a date as to when we need to have that in for the report.

The Chair: Mr Sutherland, correct me if I'm wrong, but the corrective actions as they are stated here are the opinions of those people who made presentations before the committee. Whether we accept them or not, I think it's understood that they are just—

Mr Sutherland: Okay. I'm sorry, I'm a little confused then. You're saying just add these in at the end?

Ms Campbell: As the Chair has just stated, these are the recommendations that were made by the witnesses. The committee would probably like a separate section dealing with specific recommendations.

Mr Sutherland: Sure. Okay.

Ms Campbell: I have a question for the committee. Are they happy with this as it's presented now and would they like this section on corrective actions to be merely a summarization of the points that appear under each of these headings, or are there a few that you would like to focus in on and make specific reference to?

The Chair: I would think that each caucus would have an opinion that would be different from the other

caucuses. Therefore, it may be necessary for the members of the respective caucuses to sit down and put an opinion on paper with regard to what they consider would be important steps for the government to take, or the Finance minister, if that's the direction they want to go. Otherwise, I see this as being quite a long, convoluted process other than just listing the corrective actions that have been suggested by those people who have made presentations.

Mr Phillips: This is not easy, and all that stuff. I had been more in Kimble's camp of thinking that this was sort of a rein for us to begin our discussion on possible recommendations and I think this is a useful—in my opinion anyway, speaking as one—almost a useful exhibit but not part of the body of the report, only because it's kind of an undisciplined process to just throw everything in. If the readers aren't careful, they'll never know that this was just listing it all.

I don't know whether it's worth taking a run at, seeing that if we can't do what Kimble suggested and sort of start on—I've got mine all mixed up here too. My brain doesn't work fast enough but I think I started on page 4; yes.

Maybe to just skip through them fairly quickly, what I found as I looked through them was that on some of them I can say, "Yes, that's a good idea; it's not a big idea, but a good idea," on others, "Yes, that's a good idea and a big idea," on others, "There might be some merit in studying that but I don't know enough about whether it would work or it wouldn't work and I couldn't make a decision on it." and on others, I thought no and then I thought it's worth maybe just trying to go through it if we can because it also helps us to compartmentalize them and to see if the headings that we've got here—the original headings were "Interjurisdictional Cooperation," "Enforcement," "Taxation," "Sector Specific," "Further Research"—work or not.

I don't know whether the committee wants to try and take a run at working through these things quickly and just saying if there are some we can all agree on, because I think the report in theory is a far more powerful one if we can say, "Listen, we're all agreed on all of these and then we've got these other differences of opinion."

Mr Sutherland: Now that I've suggested that approach, I just want to come back to one problem. Was the researcher indicating that she would summarize these points into more like the rest of the body of it in terms of putting that forward and what we heard as "Corrective Actions" and then "Additional" or are we just suggesting that maybe as they're presented here they would be put forward as an appendix of the report then?

Ms Campbell: That was my understanding, but I'm getting the feeling now that we're going directly into "Recommendations" as opposed to having the section "Corrective Actions" as a buffer between "Recommendations" and the rest of the body of the paper.

Mr Phillips: I'm flexible either way but if the committee feels that keeping it in the body—that's fine.

The Chair: If I understand correctly then, we should probably go through the list of corrective actions and

contributing factors item by item and see if we can make sense of some of this.

Mr Sutherland: I guess at some point, if we're not going to ask research to summarize these into a written report, then all the recommendations should be put forward as an appendix to the report so that people could see all the recommendations that were made to us.

Mr Phillips: I don't mind it either way. I think it's useful having it in the report somewhere, all the proposals we had.

Mr Cousens: Let's go through it now. I think it makes sense if we try to identify those issues that we want to embellish and make as our recommendations.

Mr Sutherland: Okay.

The Chair: I would ask then of the research officer, where would you like to start? I ask you because you will be maybe making additions or contributing factors. I'm asking for your assistance.

Ms Campbell: I suppose at this point we are discussing "Corrective Actions" or perhaps should it be retitled "Recommendations."

The Chair: I see what's happening to me here. I've got my pages a little mixed up. I go from 4 to 3 and I should be going from 4 to 5. I've got it straight in my mind now, so we should be on page 5 and maybe dealing with the overall problem and some of the comments or recommendations made by—

Mr Phillips: We're actually on page 4, I believe, two thirds of the way down, I think.

The Chair: "Corrective Actions." Except that I think we've concluded with that, have we not?

Mr Sutherland: Yes. The top of page 5.

The Chair: Would the committee members like me to take the committee through these recommendations bullet point by bullet point and see whether we agree with what the presenters have suggested might be done to correct the problem?

Mr Phillips: Yes.

1450

Mr Cousens: I don't know of an easier way. To me, it shouldn't be hard. If there's a consensus, you'll get a show of hands, and just go with it.

The Chair: Shall I read these into the record then?

Mr Phillips: I don't know whether you need to or not. My own view on that first one was I didn't quite understand it, and for me it wasn't a big deal.

Mr Monte Kwinter (Wilson Heights): I would like an explanation of what is a crime on oneself.

The Chair: Do you want that from me, Mr Kwinter?

Mr Kwinter: Whoever wrote it.

Mr Cousens: It's rhetorical. Don't let him distract us.

Mr Kwinter: I'm serious. Where, when you do something to yourself, is it a crime?

The Chair: Maybe, and this is only my interpretation, if you cheat the tax system, in a sense you're cheating yourself.

Mr Cousens: Overeating would be one.

Mr Kwinter: Anyway, we've decided we're taking that out anyway. Is that correct?

The Chair: Yes. Bullet point 2.

Mr Phillips: I found this a very useful point, personally. I call it part of encouraging compliance. I think it's all part of social assistance reform, unemployment insurance reform, all sorts of stuff.

Mr Sutherland: I just hope that we could have it reworded maybe in a summary. But the essence of what it's saying is ensuring that both unemployment insurance and social assistance support people who want to work, whether that may be only at part-time jobs, those types of things. But the clear thing is that both of those systems aren't penalizing people who may want to work but can only work part-time. They say, I guess, that 100% tax on every dollar you earn is in some cases deducted from people on both those programs, that type of problem.

The Chair: Which is a real disincentive to work.

Mr Sutherland: Yes, but may also encourage people to use the underground.

The Chair: Any further comments on bullet point 2? Okay, bullet point 3.

Mr Phillips: I wrote the words "sort of agree" here, in that I think the tone of our report, in my opinion, has to be careful that we don't look like we think the whole solution is just to come down with hobnail boots on people. If we do that, I think we lose credibility. That's the first part.

There are, by the way, many recommendations here like this. I do think that part of the solution is going to be in letting people know there are penalties to be paid if you flout the thing. I think, secondly, trying to provide ways that people appreciate maybe better than they do that there's a price we all pay if a lot of people cheat. I wouldn't want to be married to the exact language here.

Mr Sutherland: Really what you're saying is some form of public education about the problem, the extent of the problem, how it impacts them and what the possible consequences are, under some type of recommendation to that effect?

Mr Phillips: Yes.

Mr Cousens: Agreed.

Mr Kwinter: When I read this, I got the feeling that if the thrust was going to be, "If you do this you're a criminal and here are the terrible things we're going to do to you," I don't think that's going to be terribly effective.

I think if we had a public relations program that educated people to things that they may not even think are sort of contrary to good economic public policy, things that they're doing where they pay cash and, "We're not doing anything," point out some of the issues that are there, what the harm is to the system, and then also talk about, with an implied threat, that we've got to do something about this and people are going to be penalized in some way for doing it—I would agree with the thrust that we should not be coming down with the main thrust being, "You guys are criminals and here's what we're going to do to you."

It should be an educational process to make people

aware of what the underground economy is and the things they're doing that they may not even think are, you may say, illegal, if that's the term you want to use, that what they're doing is illegal.

The Chair: That's a good point. There is a perception in some part of the broader public that what they're doing really isn't illegal.

Mrs Irene Mathyssen (Middlesex): It may be somewhere else, but I've been thinking in terms of the soft sell that Kimble was talking about in terms of public education, "This is what you're tax dollars buy," and you show what the tax dollars buy, the health care, the education, and, "When those tax dollars are not available, these services are going to be jeopardized," You could combine, "You may be breaking the law without even knowing it," with the benefits that people do indeed receive from the tax dollars they contribute.

The Chair: Bullet point 4.

Mr Kwinter: I think point 4 is incorporated in what we just talked about. It's the linkage of the two.

The Chair: Yes. As I read it now, I see that. I think you're right. It's certainly related.

Mr Sutherland: I guess I would say yes and no to that. I see what bullet point 3 is saying, that people need to understand that their tax dollars are spent for education etc. If I understand recommendation 4, it's basically saying that people are willing to pay a price if they can see the absolute direct benefit. For lack of a better example, I'll come back to the tire tax. The tire tax revenue was going to deal with the problem we have with used tires. That's the sense I get reading that. Maybe I'm wrong. Likewise, I'm willing to pay a higher price for post-secondary education as long as I'm receiving the direct benefit of that. That's what I interpreted that to mean.

Mr Kwinter: If you go back to bullet point 3, it says "emphasize the economic harm which results from underground activity." That's a general term, where these are very specific things. I have no problem with separating the two concepts, but I think they should be together, because that's what we're talking about.

Mr Sutherland: All right, that's fine.

Mr Kwinter: "If you're doing these things, these are the results of your actions."

The Chair: So we're going to strike number 4?

Mr Kwinter: Blend number 4 into number 3.

The Chair: Okay. Bullet point 5.

Mr Sutherland: I'm not really sure bullet point 5 is something you could incorporate into a formal recommendation. It's more a piece of advice rather than anything you could use as a specific recommendation.

The Chair: Any other comments on bullet point 5?

Mr Carr: I liked it.

The Chair: Then we have an agreement to leave that in. Again, as we go through these points, some of them are directive, some of them are suggestive and some of them are in the interests of maybe helping us understand better the problem.

Mr Sutherland: I guess again, if I go back to bullet point 5, what I would say is it's more of a comment. So if people thought it was an adequate comment, somewhere then this should be incorporated into the body of the report rather than put forward as a recommendation, noted as a comment by a certain group. If you want to put it in under perceptions of the problems of taxation, then it would seem that would be an adequate place to put this in as a comment. I'm just not sure how it works as a recommendation, though.

The Chair: Again, just recognizing that as we go through these, some direction has to be given to the research officer.

Mr Sutherland: If it can be incorporated into the body of the report then, under the perceptions, that would probably be a better place for it.

The Chair: Bullet point 6: I'm sure no one disagrees with that.

Mr Cousens: It's not going to be a big recommendation. It's part of the context. It's part of the spirit of establishing an environment for a good life and living well.

The Chair: Bullet point 7.

Mrs Mathysen: Number 7 I think has a very good idea there. It just needs to be clarified. Perhaps the government should provide more information to the public so that we explain how expenditure reduction and the use of revenues raised through taxation is more positively utilized and indicate our goal of better utilization of funding through the public sector and with the public sector.

1500

Mr Sutherland: I think this recommendation ties into some of the work that actually the public accounts committee is doing. That's basically what it's saying: The need for a legislative accountability framework is really what it's calling for within the public sector. I think some recommendation to that effect is very clear. Also, then, not only having that in place, but ensuring that the public understands what that accountability framework is.

The Chair: Any further comments about point 7?

Mr Cousens: What did you decide to do with it? It just goes into the history or the context? It's not a point.

Mr Sutherland: Which one are you looking at?

Mr Cousens: The need.

Mr Sutherland: We were suggesting this ties into what's being recommended at public accounts, which is a legislative accountability framework being clearly established and the public being made aware of what that is.

Mr Cousens: Fine.

The Chair: Is that okay? We come to the "Enforcement/Compliance" section. Oh, I'm sorry. My pages are mixed up. I've got to go back from page 5 to page 6. I understand bullet point 7 much more clearly now. Okay, page 6, bullet point 8.

Mr Sutherland: I would suggest we put this down as one for further study. While it was recommended, I didn't think we received a lot of evidence to support that, so it's

something someone should provide more study on.

Mr Kwinter: Mr Chairman, can I make a recommendation that as we move to each page we start our numbering over again? Otherwise, it's going to be very confusing. You're talking about bullet point 8 on page 6, where if you talk about bullet point 1 on page 6, you know where it is.

The Chair: I'm willing to do whatever any committee member would like, as long as we know what we're talking about.

Mr Kwinter: The point I'm making is that the bullet points aren't numbered, and if you've got to keep carrying numbers over, there's no way of finding them.

The Chair: Okay, henceforth we will start at the top of the page and call the first bullet point 1, and when we complete that page we will call it whatever number we're at and so on and so forth. So we'll call this page 6, bullet point 1. Of course you know, Mr Kwinter, that now I have to renumber all the bullet points on this page.

Ms Campbell: I have a question concerning this first recommendation on page 6. Is it the committee's thought that this be moved to a recommendation section discussing further study, further research?

Mr Sutherland: That's my sense anyway, that it have further analysis and further study, because while it was recommended, I didn't think we got a lot of evidence to support whether or not it would be effective.

Mr Carr: My feeling on that is that you're asking, in effect, for something similar to more regulations. I can't see us being interested in doing that.

Mr Cousens: Don't even ask for more study, because someone's going to wake up some day with nothing to do and start studying it.

Mr Sutherland: I would think some fine researchers and academics—

Mr Cousens: No, I'd rather see them doing what we want them to do. I'd say drop it and move to the next. My thinking is, let's get some good solid recommendations there that have some meat on them that we can hang our hat on. On some of the small points, just say background or context; they're not going to really change the world, but some of them can.

The Chair: Indeed, would not bullet point 1 be a recommendation that one might suggest to the banking community?

Mr Cousens: No.

The Chair: I'm not saying we do, but that's where it would belong.

Mr Cousens: Someone might.

The Chair: Yes. Not us, though.

Mr Cousens: I'd say no action.

Mr Sutherland: That's fine.

The Chair: So we've deleted bullet point 1 on page 6. Bullet point 2.

Mr Carr: That's a good one, obviously. You can't disagree with that.

Mrs Mathysen: Does this refer to red tape? If it refers to the hoops small businesses have to go through

to report retail sales tax and GST, couldn't we fill that out a little and specifically recommend that it be made easier for small businesses to report and deal with reporting of PST and GST, the handling of that?

The Chair: We could, Ms Mathysen. I think the statement's quite inclusive. I think "compliance" means all aspects of dealing with business. This would be a suggestion for change, without a doubt, because it is quite complex.

Mr Kwinter: Can I present a dissenting opinion? You're not addressing the fact that compliance, particularly in the small business sector, needs to be kept as simple as possible. You're just saying that the way you comply with whatever is out there is as simple as possible. That may be a contradiction.

I suggest that maybe it should say that the regulation be as simple as possible. It's a given that we're asking everybody to comply and to say you're going to comply in a simpler way. It's the regulation of that particular tax regime or whatever it is that I think should be simpler, as opposed to the compliance.

Mr Sutherland: I believe farther on we do have a recommendation to that effect which talks about streamlining the regulations and simplifying the tax system. I believe those are the recommendations.

Mrs Mathysen: Then it's just repetitive.

Mr Sutherland: So people are comfortable if we put it under that, simplifying the tax system and streamlining the regulations for small business, something to that effect?

The Chair: I suspect there will be a lot of repetition as we go through points that are made, because they're made by many people and there is certainly some repetitious overlap, I guess I could say. Bullet point 3.

1510

Mr Cousens: That's part of the simplification of the tax structure, as per.

Mr Phillips: I agree with Don. When that person explained all they went through, it struck me that it was almost an invitation to not comply. The small but neat point that was made in that presentation that I found interesting—I'm not sure it's important enough to put in our report—was the use of technology. Because toll roads are coming in, there will be some automatic chips embedded. I think one of the subpoints this person raised was, could you do the same thing, the automatic chip for a truck as it crosses the border sort of stuff? As I say, I'm not sure it's a big enough issue to put in our report, but it struck me that as a mild side issue there is a business opportunity here to develop technology to help some of these industries comply more quickly. It may not be important enough to put in our report, though.

The Chair: So this is repetitious and needs not be included, then. Is that right?

Mr Phillips: I think it was part of the one right above, simplification.

The Chair: Okay. Bullet point 4.

Mr Sutherland: I would tie this back in with the recommendation about the public relations-education

component, under several subheadings; not only the impact, but maybe put this one as the subheading "Consumer Protection Issues" and highlight some of these, the health risks associated with purchasing illegal alcohol etc.

The Chair: Losing warranties, things like that.

Mr Sutherland: Yes. So it's a subheading under public education: "Consumer Protection Issues" or "Health and Safety Issues," whatever.

The Chair: Everybody agrees with that? Bullet point 5, an interesting bullet point indeed.

Mr Phillips: I'm reluctant to endorse it, because I happen to think, as a cynical opposition politician, that this is a way to indirectly raise a lot of taxes without ever saying it. This is the whole approach that's being taken in Ontario and probably in other jurisdictions, and I'm not sure we've really thought through whether or not this is a good recommendation. So it's one I'm reluctant to endorse.

Mr Cousens: Agreed.

Mr Sutherland: Agreed.

Mr Carr: If we were building a tax structure and starting over again, it might be acceptable to do this, but the problem for the public, in my perception, is not unlike Gerry's. When governments talk about increasing fees, they don't lower anything else; it's just another way of increasing taxes. They call it fees and user fees, but we never seem to get a corresponding reduction in other areas. If you were to start from scratch and build a tax structure, I would probably be in agreement, but with governments of all political stripes, any time you hear about user fees you'd better hold on to your wallet because the bottom line is that you're going to be paying more in total taxes. So while I can sympathize with the way it's done, I don't think I can support this.

The Chair: I think the message is clear there. Bullet point 6. It's the one bullet under "Interjurisdictional Cooperation."

Mr Cousens: There is great validity to this, but it goes beyond just tax enforcement. We're seeing that with the tobacco problem, whole banks and the tracing of moneys going across the border. There has to be inter-jurisdictional involvement, not only in Canada but—I think this is open-ended enough that our researcher could expand it—we need interprovincial plus intergovernmental. I think there's great need for that, expanded to include a number of issues, whether police forces can share, banking information can be shared. Then the criminals would have some limits, because they've got tools we don't begin to have. I say yes, but more.

The Chair: Any further comment on that bullet point? Seeing none, we move to the heading "Enforcement/Compliance" and bullet point 1. This is on page 7.

Mr Phillips: I think this is worthwhile, but it has to be carefully worded, in my opinion—what I said earlier—so we don't look naïve, that just by telling people to be good corporate citizens and pay their taxes, they'll do it. I think part of our recommendation is going to have to be around a sensible communication of the price we pay for this. The researcher is going to have to craft it carefully to avoid us being laughed at: that the committee suggests

good corporate citizenship, that a public announcement by the Premier to be a good corporate citizen will solve the underground economy. Anyway, I've made my point. I think it's an important point to make, but carefully crafted.

Mr Sutherland: I think this comes under the public education stuff that we've already talked about and can be incorporated under that.

The Chair: Bullet point 2?

Mr Phillips: It's the same thing as 1 to me.

The Chair: Everyone agrees? Okay, bullet point 3?

Mr Phillips: One thing I thought we heard was that the business community faces many tax auditors and that there's a benefit we could provide, in addition to it being helpful in dealing with this, of simplifying the tax audit system and better cooperation between the levels of government on tax audits and what not.

Mr Sutherland: On that point, I don't think we could make that recommendation until we deal with the issue of harmonization of PST and GST. If I remember correctly, they said it's easier with the income tax because you only have one set of auditors because it's the one tax system and the feds pick it up on behalf of the province etc, but on the sales tax it's more complex because you've got provincial sales tax auditors and you've got federal. If we want to make that recommendation, I think we'll have to come back to that after we have some discussion about what should be recommended on PST-GST.

Mr Cousens: The government did have some interesting successes to talk about as it has added auditors in certain areas in recent years. It has in its own efforts found success by the special task forces it's now brought in. There is a sense here in which we can, I believe, recognize the efforts of the ministry already to address some of these concerns. They seem to have the freedom to expand it, and then we're getting support from the government in those areas. It's not a recommendation, but it is part of the context, that I felt the ministry really was being encouraged to do what it had to do.

The Chair: If the members don't mind me making a comment, I find something strange about this bullet. It says, "The return on such investment seems to be there"—I think that's evident by some of the information we've received—"providing the additional personnel do not become permanent once the problem seems to be resolved." That part of the statement—I don't know. I think if you take away the audit opportunity, then the problem is going to grow, and as you increase that audit opportunity the problem seems to resolve. I think they would have to be in place permanently, wouldn't they?

Mr Cousens: You just don't know; you always keep looking at it.

The Chair: It's kind of like raising taxes, I suspect. You reach the point when you don't need to have any more auditors because there's not going to be a return for increasing the number of auditors, but we haven't reached that saturation point at this point in time. Anyway, it's just a comment.

1520

Mr Sutherland: I think the thrust of the recommen-

dation is that there needs to be greater auditor surveillance. I'm not sure we have all the answers on how that's done, or whether we necessarily want to accept the rest of the recommendation, but certainly greater auditor surveillance was the sense I got that people support.

The Chair: So everybody would agree with that and delete the second sentence? Okay.

Bullet point 4: I'd just like to make a point. In the town where I come from, whenever someone has been audited and there has been a large tax defrauding of the government, he or she usually gets their picture and the story printed in the small biweekly paper. It's an opportunity for some sensational news in a small town. I don't know if that's the same thing that happens in a large urban centre like Toronto.

Mr Sutherland: I'm not sure what Mr Vaillancourt meant when he said penalties should be personalized. I would assume if they're fines and they're assessed against you, they are personalized. Was he meaning something else besides that? Does anyone recall that?

The Chair: I think this already happens, does it not? It becomes public knowledge if someone's defrauding the government. It's not kept a secret.

Mr Sutherland: If the local papers report on local court cases, then yes, it would. The thrust of what they're saying here is that there needs to be greater awareness of enforcement and the conviction of those who are evading the system.

Mr Carr: I don't know what he was getting at, whether he meant the government should take out ads and publicize the names of people. Maybe that is what he was getting at, but I certainly wouldn't agree with that, so take it out.

Mr Sutherland: I think what was recommended and what the ministry said it is doing is issuing press releases for significant convictions, as is done by the Ministry of Labour for occupational health and safety, and the Ministry of Environment and Energy for companies with environmental—

Mr Kwinter: Maybe instead of having the word "personalized," it should say "publicized."

Mr Sutherland: Yes, maybe that's it.

Mrs Caplan: I think that's what he meant, "publicized." It's just a misprint; not that Hansard would misprint.

Mr Kwinter: They already are personalized, because they're being assessed against a particular person.

The Chair: Okay, bullet point 5: increased penalties.

Mr Sutherland: I'm just wondering how we want to deal with this. The Ministry of Finance did talk about what is already in existence, and as we know, the Minister of Finance did make some announcement in the House before Christmas about increased penalties. I don't know whether folks want to say there should be additional penalties on top of those. It's a pretty general comment, and I'm just not sure.

Mr Kwinter: It seems to me that the penalties are set by statute—they're not arbitrary on anybody's part—and if there's to be a change in the schedule of fines, that

would have to be an amendment to whatever statute governs this particular event. If the feeling is that whoever is assessing the penalty is not assessing the maximums or that the maximums are too low, I think that's something we have to look at, whether that's the recommendation we're going to make. But just to make the general comment—I don't know what the problem is. I don't know whether the range of penalties is sufficient but there aren't enough of them being assessed at the highest level, or whether they should be increased. I don't know what the recommendation would mean unless we had that information.

Mr Sutherland: Actually, maybe that's better: review and assessment of penalties provided. What we really want to know is, are the penalties having their deterrent effect?

Mr Phillips: I'm a bit reluctant to embrace this recommendation, because I don't think we ever examined it. I had the feeling that the people from Finance who came to us said, "Listen, it isn't the size of the penalties that's the problem, it's just our enforcement of it." I don't think there was any evidence that the size of the penalties was a problem; it seemed to me the problem was elsewhere. My feeling would be, unless somebody actually wants to spend the time and go through the penalties and prove to the committee that they're out of whack, I don't think they are necessarily.

The Chair: Again, I have no doubt it will be decided in the courts, and based on precedent law, case law, decisions will be made by those with the authority to apply penalties.

Bullet point 6? That would suggest they're not, I guess.

Mr Sutherland: I just think it's a given and it's not something we need to put as a formal recommendation. If we've said there should be greater audit surveillance, that's basically the same thing.

Mrs Caplan: On this, Mr Chair, I'd like to just put on the record that while I think it's important to have the enforcement and compliance recommendations as part of the report, one of the things we also heard was that enforcement of compliance has been an issue for a long, long time and that generally, if people are determined to find ways around paying their tax and there is a complicity, enforcement is not as effective as really trying to change a public attitude. One of the ways you get better compliance is where individuals feel it's in their best interests not only to comply themselves but to encourage others by reporting. Part of the concern I have is that because there's an attitudinal acceptance of the behaviour, with trying to enforce greater compliance I think we could see a lot of resources wasted.

I'm not sure that more policing and enforcement measures would be as effective as in some way trying to address the other issues. While I don't have any problem with seeing them included in the report, I don't think we should for a minute assume that these are going to solve the problem. I don't know if we want to put a disclaimer in there under enforcement and compliance, maybe a little mention that says we really have to look at the cost-effectiveness of that enforcement before we see govern-

ment spending a whole lot of money to try and police.

The other thing I'd point out is that one of the things we've seen, and I don't mean to be partisan in this, is that as the NDP government has increased taxes, we've actually seen a decline in revenues. My concern is that I don't want to see increased dollars going into enforcement have a negative effect, where you actually get less compliance as a result of the increased enforcement. I want to make sure the taxpayers are getting value for money, so anything you're going to do should be tested first. I don't know if there is a way of reflecting that in the recommendations, but I think that would be a good thing to do.

1530

The Chair: I'm curious. You said that as taxes have been increased, there's been a reduction in revenue.

Mrs Caplan: Yes. Have you not noticed that?

The Chair: Absolutely, I have. But I would probably have a substantial debate with you about why that's happened. I think it wouldn't necessarily be just because taxes have been raised, but there are many other factors.

Mrs Caplan: The point I'm making is that the reality is that over the last couple of years, as your government has increased taxes, we've seen revenues fall in spite of the desire to increase revenue by increasing taxes. I don't want to see the same thing happen here, where you put more money into enforcement and actually encourage greater tax evasion and less compliance. I'm making that point.

Mr Sutherland: If I understand what you're really getting at here, it's that in our comments about auditing or whatever, you want another comment put in that takes into consideration some assessment of the effectiveness of that enforcement audit.

Mrs Caplan: One point that was made that I found was very interesting was how little research has been done in this area. I'm assuming we will have a recommendation here that suggests that there be the kind of research and audit and information data collected that has been absent. Certainly one area where I think we could get some good research and data is in the area of cost-effectiveness of enforcement and compliance. That would be something I'd suggest be added. You see, we make certain assumptions, that if we put more money into enforcement we are going to get the result of more compliance and less evasion and lessening the number of those who don't pay their fair share of taxes.

The Chair: I just have a very simple question to ask in this. Did the taxes increase because the revenues fell, or did the revenues fall because the taxes were increased? Is that not a good question?

Mrs Caplan: Yes, it is a good question, and I hope the people at the ministry are asking those questions and looking for the research. I have my perception—and I think it is a perception, because there are no hard data—but I do believe that as you increase taxes, you chase businesses and individuals out of this jurisdiction and therefore you get much greater job loss. Therefore, increasing taxes does not necessarily increase your revenues, as you have found out, for a whole lot of

reasons. It could be both of the reasons that you have mentioned.

What the contributing factors are is a very important public policy question. That's why I'm suggesting for this committee that when we look at the underground economy, all the implications of which are even more difficult to understand, as we have heard in testimony before the committee, we recognize that the tried and true, simple enforcement model solutions may not yield the desired result.

So I would put a caution. Even though a lot of people have come forward and said better enforcement, and "Do this and do that," I think it would be prudent for this committee to say to the government, "Do the research and make sure your enforcement dollars are being used cost-effectively." That's all I'm saying.

The Chair: Okay, thank you. Bullet point 7.

Mr Kwinter: I'd just like your clarification on number 7. When we talk about "truly random pre-audits," is that a random pre-audit throughout the whole system or a random pre-audit in an identified sector that has a high potential of getting results?

The Chair: It may be that Mr Vaillancourt would be the only person who could answer that.

Mr Kwinter: The reason I ask is that I think it's an absolute waste of taxpayers' money to do a random pre-audit. You're liable to wind up auditing school teachers or other people who have absolutely no opportunity to do anything with their taxes other than pay them because they're deducted at source.

On the other hand, if there are areas of people who are self-employed or whatever, real estate salesmen, people who have an opportunity to circumvent the tax laws and to benefit from the underground economy, then I would say that if you want to do random audits in that sector, no problem. But just to have a random audit, where you're liable to have auditors literally wasting their time because they're going to go out there and get no benefit from their efforts—and let's face it, the way this thing is supposed to work is that there's got to be a cost-benefit for the auditor. If he goes out, he's got to have a fairly good chance of coming back and making some money or justifying why he's there. That's the reason for my comment.

The Chair: I'd just like to make a comment, if I may. I did have a small business, an insulation and construction company, and we were audited by Revenue Canada. I don't know of any of my friends who have ever been audited, but I do know that once I was in business, it was only three years into the business that we were audited. I found that very interesting, and it was a random audit, they told me.

Mr Sutherland: What I'd like to have some focus on in this recommendation, and maybe tie it into earlier ones about increased audit surveillance and assessing effectiveness, is the second point about matched data files and the cross-referencing of different databases. I would hope we incorporate that as part of the recommendation, that this be explored as a way of looking at things.

I believe the Ministry of Finance presentation said that

our effectiveness in auditing increases when we have people or corporations on the tax rolls. Sometimes it takes a while to get them on our tax rolls, but by cross-referencing the other databases, I believe we were told this could occur. I'd be interested in that portion of the recommendation.

Mr Cousens: That's what they're doing already; maybe not enough, but they're doing it. Excellent.

The Chair: That brings us to page 8, bullet point 1.

Mr Sutherland: We've dealt with both 1 and 2.

The Chair: Okay. "Taxation," bullet point 3.

Mr Cousens: Agreed.

Mr Sutherland: I don't agree on that point.

The Chair: Is that what we're going to say?

Mr Sutherland: There's disagreement on point 3, so we'll have to leave that one.

The Chair: Okay. Bullet point 4.

Mr Sutherland: I don't think we've got enough evidence to convince me one way or the other what the benefits are. Although I know Mr Cousens said he didn't want us to put unnecessary questions out there for further research, clearly this, to me, would be one that requires further research before getting a recommendation.

Mr Cousens: Let's ask for it then. That's a good question.

Mr Sutherland: Okay.

The Chair: Isn't this something that retailers can do now? Isn't this something that retailers do do now?

Mrs Mathysen: I would agree. Woolco always advertised that it included GST in its prices, and all taxes are included in prices in Holland. I don't know.

Mr Sutherland: But I believe you're not supposed to be able to incorporate the GST into the price. That was one of the problems. I understand some companies did that at the very beginning, but I believe they've had to change that.

Mrs Mathysen: Oh, okay.

1540

The Chair: Point 5?

Mr Phillips: I found that a bit of a subissue, sort of a throw-in on the underground economy, and I'm not sure we've spent enough time debating it. I think we run the risk of this being a smorgasbord of recommendations about which people will say, "You couldn't have had time to"—

Mr Sutherland: The municipal issue was dealt with by the Fair Tax Commission, so if people want to examine it maybe they should look at the recommendations of the Fair Tax Commission on those topics.

The Chair: So that would also include bullet point 6?

Mr Sutherland: Yes.

Mrs Mathysen: Maybe we need to simply refer to the Fair Tax Commission and the continuing work there.

The Chair: Point 7? Point 8?

Mr Sutherland: They're very general. People may want to make some comments on them, but I don't think, in terms of getting to the heart, they give us enough

substantial evidence to work with.

Mr Cousens: It's not the underground economy. That's not really the issue we're faced with. If we're looking at the underground economy, it doesn't have to do with tax loopholes. That's a different issue.

Mr Sutherland: Okay.

The Chair: We'll go then to taxation harmonization, bullet point 9.

Mr Carr: As you know, the Ontario government's going to have a decision to make on that. As I understand it, the whole GST is going to be looked at by a federal finance committee for a year. Our party's called for that in the past, but my feeling is that it'll probably be a year before the federal government gets involved with it. I favour supporting that and I think the Ontario government has to come up very quickly with a policy.

I don't see it happening, because I don't think you can get the provinces and the federal government to agree on how it should be done. But as we are going to have a year of discussing whether the GST should become a hidden tax, I think the Ontario government needs to have a clear position. I would encourage this committee to make a recommendation to the Minister of Finance on what should be done. How to simplify and harmonize is going to be a difficult task, but I certainly think that's something we could recommend to the minister.

Mr Sutherland: I'm going to suggest that we don't recommend that, given that Mr Carr has said the federal government is looking at it and it's going to take a year. They have made a public commitment to eliminate the goods and services tax. As a result of that, I wouldn't want to recommend harmonizing it at this stage.

We know, though, that the Minister of Finance has been given that advice by the Fair Tax Commission. It has recommended, under the question of fair taxation, that that be done, so the advice to give it some consideration is with the minister already. I'm just worried about making a recommendation to harmonize with something that may not be there in a year.

Mr Carr: I don't want a debate, but I don't think they said in the election that they were going to get rid of it. They're going to get the same amount of revenue. I think everybody knows that. My point is that the recommendation we have is that somehow the federal and provincial governments have to harmonize. If we don't call it the GST, maybe we could say that the Ontario retail sales tax and the federal whatever tax be harmonized. That way we could get around it.

Mr Sutherland: You're recommending that there should be harmonization of whatever provincial and federal sales tax may exist.

Mr Carr: Yes. What may exist, assuming that they somehow get rid of it. I think what will happen is it'll be just changed, harmonized, maybe hidden, and then everybody will think it has gone away. I still think we can recommend that, and I would say this: in spite of your point about it being a year that the government will be looking at it, I think this is one recommendation we could put in that might actually be worthwhile, one of the big points, because it is going to come up in discussion

over a year. However you'd like to word it, I just think that people want governments, provincial and federal, to have some type of harmonized system, whatever you call it or however it works, and we should call for that.

Mr Sutherland: I'm not so sure I could support a recommendation about harmonization. Maybe we want to have some type of recommendation that's broader than just sales taxes but says that provincial and federal governments should work on who's responsible for what type of taxation so there's only one taxation system. Maybe there should only be one sales tax system, maybe there should only be one income tax system, that type of way, so it's easier. It may be worth considering.

Mr Carr: If it's a problem, I guess we'll leave it out.

Mr Sutherland: Okay, or people can make comment.

The Chair: On page 9, bullet points 1, 2, 3 and 4 all make comment with regard to harmonization in the GST.

Mr Cousens: Then let's turn the page.

The Chair: Thank you, Mr Cousens.

On page 10, under the heading "Taxation and Fairness," bullet point 1.

Mr Kwinter: The word "moderate" is of no relevance. They can be balanced and fair and not be moderate. To say they should be moderate—that's a quantitative thing. What may be considered moderate to one person may not be moderate at all for someone else. I would suggest that word be taken out. If you're going to use that about fairness, it should be "balanced and fair, otherwise, all moral obligation to pay will be lost." As I say, when you say "moderate," that's a subjective opinion about what is moderate.

Mr Sutherland: I would think the first three recommendations on this page can all be incorporated into one recommendation about a sense of developing a consensus on a fairer tax system.

The Chair: Okay. Under "Taxation Deterrents to Evasion," bullet points 4, 5 and 6, starting with number 4, and I bring to your attention that the first bullet point on page 11 also is one of those that would be considered a deterrent to evasion.

1550

Mrs Mathysen: I just want to raise a point about bullet point 4, that it is perhaps somewhat contradictory to our resolution to simplify things. It says the obvious way to reduce opportunities to evade tax is to increase the amount of information reported to tax authorities. I'm wondering if that doesn't bring us right back to red tape and complicated reporting that we said we were going to recommend be less complicated.

Mr Sutherland: I also think these three recommendations somewhat tie into what we were talking about under "Enforcement and Compliance" when we were exploring what types of auditing should go on. We talked about cross-referencing lists, and if we go to bullet point 6, there are three or four examples given of what could be done. If we had one recommendation about further study and exploring what additional types of information might need to be provided in a way that doesn't create a lot more paperwork or red tape, I think that would incorpor-

ate the three recommendations.

The Chair: Everybody's in agreement with that?

Mr Kwinter: I just thought of something. When you talk about bullet point 6, "Improvements in tax administration can always reduce the scope for tax evasion," there is no question that how oppressive a government wants to be really determines at what level you can enforce any kind of regime.

I have in my hand an interesting document. It's a little replica of a certificate, and it is issued in Mexico by the secretary of Hacienda y Credito Publico, which is public housing and credit. I have a company in Mexico, and this is a certificate I am issued with. If I go into a restaurant on company business and present this to the waiter, he then fills out a receipt that has exactly the same kind of certificate on it, puts the name of my company on it, puts the amount on it and gives me that receipt, and he files it as well. I don't know whether that's a deterrent or whether somebody actually does anything with it, but everybody who claims a meal as a business expense must do that.

You have to understand what the costs might be. It's also comparable to when you file a customs return when you come back to Canada. If you think that anybody really looks at that other than for statistical reasons, you're wrong. There's just no way they can do that. If you look at the forms and the numbers, they never go above 1,000. Every form has a number: it's 792, and then the next time you come through you get 643, and the next time you go through you get 491. As I say, they never go above 1,000, and there is no way they can really use that information other than just statistically, where someone can sit and compile the number of people who've come through that point and the value of what they're declaring. But to cross-reference it with anything else, they can only do that in the same way we do audits where there's a suspicion that something is wrong and they pull you out and do it.

My concern is that there is no end of controls you can put in, but very quickly there becomes a law of diminishing returns, because the enforcement and the resources required to do anything with that information become more expensive than what you're trying to resolve, and this is the point I was making about the random audits. In a free society, the whole basis of our income tax is on an honour system and a voluntary system, with sufficient penalties and random audits to try to keep people honest. If you ever tried to check up on everybody, the whole system would collapse on you. Everybody in the country would be checking up because it would take that many people to do it. That's the only caution I make about these recommendations that require more and more bureaucrats looking at things to try to improve the situation.

Mr Sutherland: I think that's why we are hoping that the three recommendations say more study on what type of information would give you a valuable return to make it worthwhile, not just for the sake of having it done to create more problems.

The Chair: Further comments on "Deterrents to Evasion"? Do you have enough information, Ms

Campbell? On page 11 we deal with some sector-specific recommendations, and the first heading is "Construction." That would be bullet point 2.

Mr Sutherland: The one I'd be interested in pursuing—and again I don't want to make it a formal recommendation but another one that I'd say needs more study—is bullet point 4, "Compulsory Registration for Contractors and Workers." I believe that somewhere in the presentations it was indicated that they do this in other areas and it was successful in helping, and also I think from a consumer protection standpoint. Number 2 says yes, they want it, but I think number 4 may help you achieve number 2.

The Chair: Thank you. Further comment on recommendations for the construction industry?

Mr Phillips: On bullet point 2, I wasn't sure this was the solution to levelling the playing field. Sometimes you get into these things where a very complicated issue is thrown in as a side issue and we end up supporting it without realizing that we are supporting something that's quite complicated. I'm a bit reluctant to say that a solution to the underground economy is to ensure that publicly funded work is done by union contractors or through "reform of the current fair wage scheme" without knowing more about it; not that I may not be in favour if I knew more about it, but I for one would be reluctant to endorse that as a solution to the underground economy without knowing a lot more about it.

Mr Carr: To group all three under "Construction" together I couldn't agree with: putting more registration, regulation on any industry. I just couldn't. Rather than go through it specifically, all three of them, I couldn't agree.

The Chair: Okay. "Beverage Alcohol": We'll start with bullet point 5.

Mr Kwinter: Mr Chairman, can I get a clarification? I'm not familiar with the designation of an "enterprise crime." What is the significance of that?

The Chair: I'm not sure. Can the research officer help us with that?

Ms Campbell: I'm afraid I can't answer that either.

The Chair: Unfortunately, we don't have a copy of the Criminal Code with us to look that up, but maybe we could ask the research officer to get us a definition of that. Although we won't be able to use it today, we will know at our next meeting with regard to the underground economy. That's February 2.

Ms Campbell: Would you like a definition sooner?

Mr Kwinter: I'd just like to know how you get designated as such and what the implications are.

1600

The Chair: Then I guess it would be fair to say that without knowing what an enterprise crime is under the Criminal Code, it would be difficult to come to some conclusion with regard to the bullet point.

Interjection.

The Chair: We would have to take a break, would we not? If it's really important to you, we can take a five-minute recess.

Mr Sutherland: Maybe we can find out the informa-

tion some time during our hearings in the next few days.

The Chair: Sure. We're going to be meeting, so if you can get us that information within the next couple of days, that would be good.

We'll go to bullet point 6.

Mr Sutherland: I believe that was dealt with under the other recommendations previously.

The Chair: Yes. Bullet point 7.

Mr Sutherland: Same thing.

The Chair: Yes, it's been dealt with before as well. Page 12, the first point on the page, the last point on beverage alcohol.

Mr Cousens: That's a given; never mind.

The Chair: Okay. Under bullet point 2 on page 12, taxation under beverage alcohol.

Mr Sutherland: That's fine. The question is establishing what is the rate. That's the real issue.

Mr Kwinter: The problem with that statement is, and it's the same one pertains to tobacco, is the role of the tax regime to control the use of these products through taxation, or is the role of the government to decide what is good for society and what isn't, to use taxation as a way of raising revenue but not as a method of control?

The idea that the government controls the use to minimize its damage to society by its tax levels, or whether it does it by education and by all kinds of other programs, is a very basic one. I think that's something that has to be determined. Is it the sole purpose of the ministry of revenue to control the use of these products by taxing them, or is its sole purpose to have a product that has been determined by the government to be legal and, as a result, tax it to raise revenue without necessarily being responsible for curbing its use? Because it's counterproductive. If you're saying to the tax collector to keep raising the tax to the point where nobody buys it, that's very easy. What is the role of the Minister of Finance, to get revenue from the product or to control it?

Mrs Caplan: Perhaps I could just make a point on this one, because I think what Mr Kwinter is saying is very valid. However, it's not just the role of the Minister of Finance, whose role it is to raise revenue to pay government's bills. From another life, I know that the government in general—cabinet, Minister of Finance and others—does discuss the kinds of policies that will have a positive influence in terms of the public good. And taxation policy is very much a public policy lever, whether it's a lever where you offer tax incentives so businesses will come and create wealth and participate in your society, or whether you tax a product such as tobacco. You'll recall we heard from the Addiction Research Foundation that there's a very definite correlation between taxation and prevalence.

I'd repeat what I said yesterday, that Ontario and Canada in general lead the world in lowering tobacco use, particularly cigarette use, in its jurisdiction. It is directly related to the level of taxation.

There are I think two public policy imperatives. Certainly, from the perspective of the Minister of Finance, those revenues are very important, but from the

perspective of a Minister of Health or a Minister of Community and Social Services or a Minister of Economic Development and Trade, the taxation policies can have a very definite impact on the economic wellbeing and therefore the health of the province. So I think it's not necessarily just one or the other. I'm glad Mr Kwinter raised that point because it does give us a chance to remember that when we're looking at the underground economy, it also has different influences.

Mr Sutherland: I come back to my point again. I agree with the recommendation. I don't think it deals with the underground economy, because they haven't told us where they think that level is and they haven't told us whether higher taxation to discourage drinking is better than maybe some of the damage caused by the underground activity associated with high alcohol prices, so I just don't see how their recommendation helps us in dealing with the underground economy specifically. The others would be an ongoing debate for another day.

Mrs Caplan: I remember very well because I had some discussion with the Addiction Research Foundation people who were here on exactly that subject. It was their view, and I must admit I very much agreed with them, that particularly for tobacco, and to a lesser degree alcohol, there's a real concern about people moving into the underground economy and the purchase of smuggled products. While their general support has always been to look at the taxation lever for those products so that you can lower use, they did say that they felt taxes should not be increased because it tends to lead to greater smuggling. However, if I recall, clearly they were not in support of tax reduction at this time. That was the Addiction Research Foundation.

Mr Sutherland: Yes, they wanted to maintain.

Mrs Caplan: They wanted maintenance, but they did very strongly say that we should be very concerned about the behavioural change from the purchase of legal products at the price including the taxes, the shift, to the purchase of the smuggled product. So I have some concern about this recommendation because the advice from the experts was that we should be very careful in this particular area, that the public policy imperatives were in conflict, so to speak.

The Chair: We're going to delete it. Is that right?

Mr Sutherland: That's my suggestion. It doesn't give any specific recommendations on where to go.

The Chair: Okay, point 3.

Mr Sutherland: Support.

The Chair: Agreement? Okay, point 4.

Mr Wayne Lessard (Windsor-Walkerville): Yesterday, I mentioned the point about the submission that was made by the distillers' council about the fairness of taxation levels and the relationship between beer and wine and distilled spirits. This was one attempt by the distillers to have some fairness with respect to the taxation levels between those two.

I think it relates somewhat to bullet point 3, where it's indicated there should be no tax increase on beverage alcohol products. But I think the point the distillers' association is trying to make is that if there are any

increases, they should be towards fairness between the three different types of products. I don't know if we want to maintain the recommendation that they've made specifically, but I think there should be some discussion in the report about their general argument about the fairness in the taxation levels between beer and wine and distilled spirits. I think that point was made in the notes that we received today as well.

1610

The Chair: Ms Campbell. You were just going to say that.

Ms Campbell: I was just going to say exactly that.

The Chair: Okay. What is the committee's recommendation with regard to point 4?

Mr Cousens: I personally don't think it's for us to start telling other jurisdictions what they should do with their taxes. If they do it, fine, but I don't think it's something that a committee of the Legislature or the Premier, when someone's our industry and trade rep and is talking—I don't think it's the kind of thing where you come along and start telling them what to do.

The Chair: So then we'll delete that? Under the topic of "Tobacco," point 5.

Mr Sutherland: With all these recommendations about the Tobacco Control Act, while good recommendations, I'm not quite sure what their direct relevance is to the underground economy. I would suggest that we take them as free advice, but I'm not sure that specifically those ones, those three recommendations on the bottom of page 12 and the top of page 13, are appropriate for the report.

The Chair: Is everyone in agreement with that? Okay. On page 13, under the heading of "Taxation," on point 2. A lot of these points, just to maybe speed things up somewhat, are not long in text. I see that many of them are very similar in what their direction is. Maybe we could deal with at least those six points on page 13 to start with; well, at least the first four points, points 2, 3, 4 and 5. Is that a recommendation we should send on?

Mr Cousens: I'm not in favour of those four really.

Mrs Caplan: Which four? On page 13?

The Chair: Page 13, under "Taxation," the first four.

Mrs Caplan: While I'm hearing some comments about lack of accord, I think it's important to include those in the report because we know that one of the problems Ontario is having is with the border with the United States. We also know that this advice comes from the Addiction Research Foundation and others.

We're talking here about federal and provincial cooperation and whether the provincial government requests the federal government to speak to the US about this. These are the sorts of things, particularly in the environment that we have, good relations and good public policy. I don't think it's an unreasonable recommendation or suggestion that the provincial government talk to its neighbours in a friendly way, show them the advice of the experts like the ARF, the Addiction Research Foundation, show them the evidence of the differential in smoking prevalence and use of tobacco in the two

jurisdictions, and perhaps there will be the support by policymakers so that it will not only help us out but help them out as well.

The suggestions are only to lobby and to discuss, and if we'd be more comfortable, maybe it should be to "discuss with the US counterparts" as opposed to "lobby," but it means the same thing. It's to engage in intergovernmental discussions, and I think that's positive and healthy and certainly appropriate. We have a whole Ministry of Intergovernmental Affairs.

Mr Cousens: I'm persuaded, Mr Chairman.

Mrs Caplan: I'll keep talking till you're persuaded.

Mr Sutherland: We had precedent, did we not, on the acid rain question, the clean air act, that type of thing?

Mrs Caplan: Yes.

Mr Cousens: I'm persuaded. Please, next point.

The Chair: Then that includes those first four points, and that I think concludes those first four points as well.

The next three points, 6, 7 and the first point on page 14, are all related as well. It has to do with the excise or export tax and the reimposition of that export tax. Is everyone in agreement with that?

Mr Sutherland: No.

Mr Mark Morrow (Wentworth East): Can you tell us why? We want to know.

The Chair: I'm sure all members have been watching the news or been seeing in the media recently that the province of Quebec is trying to lobby the federal government to reduce its taxes, and for the federal government to reduce its taxes as well. I don't know how successfully that's going.

What direction shall we give the research officer with regard to those three points, with regard to export tax? We have a disagreement, do we?

Mr Sutherland: Yes, we have at least one disagreement. If my colleague from Norfolk was here we'd probably have two.

The Chair: I see, a parochial decision.

Mr Sutherland: Sometimes one has to do that.

Mr Cousens: It's agreed, Mr Chair. For once you can ignore Kim.

Mr Sutherland: No. I would like to state that I thought we had a consensus at the beginning that if we agreed with it, then we'd put it in; if we didn't, then there would be—

Mr Cousens: Oh, you're serious in not wanting it in.

Mr Sutherland: Yes—and then there would be opportunity for comment at the end.

Mrs Caplan: Not wanting what in? Discussion with the feds on the export tax? What's your concern about that?

Mr Sutherland: I have serious concerns about the export tax: (1) its effectiveness and (2) its impact in terms of what it may mean for many people in my community who are actual tobacco farmers, and what the potential impact was when it was instituted last time of cutting out the entire tobacco-growing industry in this

province, particularly in my riding.

Mrs Caplan: Are you asking for a vote?

Mr Sutherland: No. What I'm saying is I disagree with supporting that recommendation. All I'm saying is I believed at the beginning that what we established was that we'd go through, and if there are recommendations we all agree upon, we put them in, and then if there are additional comments any of the three parties want to make afterwards, they can make them.

Mr Cousens: I'm just surprised that other members of your caucus haven't spoken up on that one and put you to sleep.

Mr Sutherland: It may be, if we're putting additional comments in—

Mr Cousens: It's time for them to beat you up.

Mr Lessard: I'll throw in my two bits' worth on this one. I've spoken to the Treasurer myself because I thought the export tax was effective as far as reducing the amount of tobacco smuggled back into the country and sold in the underground economy was concerned. It happens in Windsor all the time. There are plenty of cigarettes that go over to the States and end up coming back into Canada. I don't think people are going to stop smoking Canadian cigarettes because there's an export tax placed on most cigarettes once they've left the country. What we're trying to do is reduce the amount that come back into the country illegally and get sold in the underground economy.

The Chair: So you're in favour of the export tax being put back on?

Mr Lessard: Yes.

The Chair: Mrs Mathysen, I'm sorry, I thought you were just talking to Kimble.

Mrs Mathysen: I'm sorry, I didn't realize Mr Lessard was making a point. I actually had a question. It seems to me I had read that the Americans have already put a law in place banning Canadian tobacco from American production.

1620

Mr Sutherland: It's not a law banning. What they have done is limited the amount of foreign tobacco that can go into their cigarettes.

The Chair: If I could expedite a resolution to this impasse, maybe what we should do is have this included and you and any of your caucus colleagues who would be in dissent of this decision could include that. Would that not be the right thing to do? I think it is.

Mr Sutherland: I will have it noted that I am out-voted on this one.

The Chair: Okay, so we can continue. Bullet point 2 on page 14.

Mr Cousens: That's part of it.

The Chair: That's part of it.

Mr Sutherland: And that is what we've already done.

The Chair: Okay. I think number 3 and number 4 are similar. Are we in agreement with 3 and 4 then? With regard to point 5, I would then believe that no one would support that.

Mr Sutherland: I don't think we support that.

The Chair: I think that's not supported.

With regard to "Packaging and Markings" of tobacco products, point 6 on page 14 and the first two points on page 15.

Mr Cousens: I support the concept of more clear markings, prominent markings, and it's a little bit of a contradiction. At one point you say more clear and then you have "plain packs," but in some way or other there has to be a way of identifying that this is a pack that has had taxes paid on it. I think at the present time it's hard to see. That's the point behind that. But I don't want to be so specific as to say "plain packs." There's a certain marketing that goes into colours or into other things.

Mrs Caplan: That's the point that was made. There was recently a study that was done that showed that the colours and the packaging are what make the brands particularly attractive. As far as usage is concerned, if you eliminate the fancy packaging and you just have a big warning sign on them, they will be less attractive and therefore you will get less use.

I very much support this recommendation because I think, from a public policy point of view, we should do the very best we can to make sure that people know what that they're buying is hazardous and remove anything from the packaging which may be attractive to them.

Mr Phillips: I go back to the principle that I think we're involved in dealing with the underground economy. I think we should be careful of our committee not being used for several other things, because then I think people would say: "If I had known that's what the debate was about, I would have come to make a presentation. I thought the debate was around the underground economy." As worthy as some recommendations may be, for me at least, the furthest that I think we should go is to say that we should look at ways that it can be clear that the package that's available in Ontario has paid its Ontario taxes.

Mr Kwinter: I have no problem with the recommendation on the bottom of page 14, but I have a serious problem with the recommendation at the top of page 15. I understand exactly what is meant by "plain packs," but again we get to this same sort of conundrum that we have been dealing with since the history of tobacco and tobacco taxes.

If you're going to keep tobacco as a legal product and if you expect people to produce them and sell them and then you say you can't identify them, you really are providing expropriation without compensation. Then the government should get into the tobacco business and say, "There is no reason why a company should be in business and we are going to remove them from it and we're going to start producing our own cigarettes and we're going to sell them." To suggest that corporations that are privately owned and that are doing legal things by selling a product that is still considered a legal product—but then saying, "You cannot market them, you cannot identify them so that they are distinguishable one from the other," I think raises some very basic commercial law problems and probably some charter challenges.

I understand where they're coming from. I see some very serious difficulties with trying to impose that.

Mr Cousens: I think that's the point I made originally. I just want to see some way in which we know the taxes are paid, and I think that though the point made by Ms Caplan has great validity for other purposes, it isn't in the area of our study at this time. I respect her point of view, but I don't think this report is the right forum.

Mr Norm Jamison (Norfolk): I basically have to mirror what Mr Kwinter said on the packaging and other things. I'm sorry I was out of the room for the export tax part of this.

The Chair: So was Mr Sutherland.

Mr Jamison: I know we heard a presentation about how the packs were marked as per how the taxes would be seen as being applied to those packages. There was some concern about how they're marked now as far as how they are otherwise is concerned.

As far as plain packaging is concerned, I have to agree with Mr Kwinter that the product is a legal product, and as long as it is that way, we're opening up to some major court challenges; not only that, but really, if you look at the whole perspective and where the manufacturing and so forth takes place and the integration of the manufacturing, regardless of what I just said, it still wouldn't work unless it was done federally. At the same time, it really, in my mind, would have minimal impact, if any, on people smoking or taking up the habit.

I don't believe it's a significant part, or significant enough to belong to this report in the first place. It's something that, as we hear here in committee, is probably rather debatable as to its effectiveness and its real impact on the underground economy.

Mr Sutherland: I just want to add two comments. As to the recommendations here, and I know many of the organizations have asked for Ontario to do that, my understanding is that packaging issues and so on come under federal responsibility, not provincial responsibility, so if there's a recommendation here regarding any type of packaging or whatever, I think it should be a recommendation to the federal government to implement any type of packaging recommendation, stamping for duty etc, because it actually has that responsibility and not the province of Ontario. If the committee feels it wants to do that, I would only encourage a change suggesting that the federal government should do those types of changes.

The Chair: With regard to packaging and markings, also included in this discussion should be the second point on page 15.

1630

Mr Sutherland: I heard two comments, both from Mr Phillips and Mr Cousens, that whatever the worthiness of the second recommendation, this report may not be the appropriate place for that recommendation.

The Chair: It appears everyone agrees with that.

Mrs Caplan: No, there is some dissent. I don't want to get into a major discussion on it. It does seem to me that if a product is less attractive generally, it will be less attractive in the underground economy as well and you will therefore see decline in its usage there. I'm not going

to get into a big argument here at the committee if the committee feels strongly it doesn't want it included. I do think that it's an important public policy point and that it wouldn't hurt to have it included in this report because I think ultimately that's the sort of thing you're going to have to look at. I think it would have an impact on usage in the underground economy as well as it would within the regular market.

Certainly, Mr Kwinter makes points on the expropriation aspect of it and that kind of thing, but more and more we are seeing what the impact of advertising is and the cost to society generally. I think we're going to see some debate and discussion on those issues, so I'm prepared to wait until then to have a chance to have the debate further. Hopefully, the discussion will become part of the tobacco control legislation because I think that is the appropriate place for it. But I don't want to let this opportunity pass without expressing my own point of view, that at every opportunity we should be looking at anything that will discourage use, whether it is in the underground economy or in the market.

The Chair: To try and expedite a conclusion to this set of concerns, it would appear that the majority of the committee members are in agreement. If you have a dissenting opinion, you're certainly entitled to make that.

Mrs Caplan: Yes, that's fine. I said it.

The Chair: That brings us to the sale of tobacco, bullet points 3 and 4.

Mr Sutherland: Just before we move on, could I get clarification on the point I brought up, that I believe packaging issues are a federal responsibility and duty. While these groups both indicated for Ontario to do that, I would suggest, if the committee feels there should be a recommendation, it's more appropriate that it's a recommendation for the federal government and not the provincial government.

Mr Cousens: I don't disbelieve you, but there may be some ways in which someone could just check out what authority we have over certain forms of packaging within the province, because if there are ways in which we can determine that it's a tax-paid product, I think that's really the point at the bottom of page 14, that it's identified as such. Somewhere or other, that's all we're really trying to do, Kim.

Mr Sutherland: Okay.

The Chair: Do you have adequate direction, Ms Campbell?

Ms Campbell: Yes.

The Chair: We're on "Sale," then, bullet points 3 and 4.

Mr Phillips: Don't you need a licence right now to sell tobacco, or do you?

Mr Sutherland: No. You only need your vendor's licence.

Mrs Caplan: Any vendor's permit; it's not a controlled substance.

The Chair: I would say too that with regard to number 4, I believe some, if not all, of those suggestions in number 4 have already been made law. Is that right?

Mr Sutherland: Or in the process of.

Mrs Caplan: It's legitimate, I think, to keep it here; the legislation has been passed.

Mr Lessard: I think they're interesting suggestions as far as trying to control the consumption of tobacco is concerned, but I'm not sure that they're really very relevant to our discussions about addressing the problems of the underground economy. The second point, reducing the legitimate sales outlets, enabling increased enforcement of existing tobacco control laws, I'm not really sure is of much assistance either.

The Chair: That may even increase the underground activity.

Mr Lessard: It may, yes. If we reduce the number of outlets it may encourage more underground activities.

The Chair: So then there's disagreement for.

Mr Lessard: I don't see how relevant these are.

The Chair: As we go through this, I guess I should remind everyone that we really are dealing with the underground economy and what recommendations we might have to discourage that. I guess that's the word, discourage it. Some of these things bring up issues other than the underground economy, for example, as Mr Kwinter said, the issue of packaging. That really doesn't have much to do with the underground economy, and Mr Cousens has said some things relevant to that as well. So these things with regard to sale then really aren't relevant to the underground economy issue. Would that be correct?

Interjections: Agreed.

The Chair: Okay. "Enforcement," points 5 and 6.

Mr Sutherland: I believe point 5 has been dealt with under our general comments on enforcement and compliance, about how that should be approached.

Number 6: "Effective enforcement is required on native reserves." I would think that if we want to deal with this recommendation, we should deal with it from a different perspective. One, there's some question whether we have any jurisdiction to enforce anything on native reserves, given the Constitution and native affairs being a federal issue. Two, though, is that there may be some room for ongoing negotiations with native reserves about enforcement, compliance and collection issues. That may be a better approach to take with a recommendation on dealing with native reserves than this specific recommendation that's put forward here.

Mr Sutherland: Does that, if there's agreement to that, give some direction to research?

The Chair: Okay. "Penalties," last point on this page and first point on page 16.

Mr Sutherland: These recommendations have been dealt with before.

The Chair: Yes, I believe they have, actually. Relevant to the whole underground economy problem, these have been dealt with, I believe.

Mr Phillips: I can't remember the testimony that supports that the need for greater sentences was at the root of it. I always figure somebody may ask me for the evidence of this eventually. I had this feeling that there

were sufficient laws on the books if ways could be found to enforce them, so I'm a bit reluctant to embrace that first recommendation.

Mr Kwinter: On the second recommendation, I really think there's a bit of editorialization by the presenter when it talks about, "There should be less acquiescence to the tobacco industry and faster action." That's a subjective interpretation of what is going on. It would seem to me that's an editorial comment by them which may or may not be true.

The Chair: Is it fair then to say that these have been dealt with and need—

Mr Cousens: I wouldn't want to deal with them.

Mr Sutherland: They're not relevant.

The Chair: That brings us to page 16, "Further Research," and bullet points 2, 3, 4 and 5.

Mr Phillips: At the risk of looking like we're supporting more study and research, the thing that has emerged on this issue is the lack of evidence of the size of the problem and what not. For something that seems to be as major as this, the fact that we don't seem to have a handle on it indicates that, without saying dramatic resources should be allocated to it, I think we can support a recommendation that says our studies indicate it is a large and growing problem, and the fact that we had such conflicting evidence from experts indicates there is not currently a good handle on the problem and we think it's worthy of governments putting some resources behind understanding the problem better so that we're better able to deal with it in the future. I think we just have to be careful we don't say to put in huge resources and massive studies, but it's clear that there's more ongoing evidence needed.

1640

Mrs Mathysen: What if you simplified it by simply saying, "The committee encourages the federal and provincial governments to share their statistical information," or, "Better sharing of statistical information"? Make it a positive rather than a negative.

Mr Cousens: We want the sharing of statistics, but what I think Mr Phillips is pointing to is that there is a need for more information and more study and more understanding of the scope, nature and extent of this problem. We haven't really done more than just scratch the surface. We still don't know how big it is and I don't think even after a lot more research that we would.

We don't want this report to just die without further action, so one action will be continuing the review, study and analysis of the issues that have come out of it by the ministry. I don't think we're asking for another legislative committee to get into it beyond what we've done, but I think there's a continuing need to monitor this.

Gerry, we haven't discussed this at all, but it may be that there is some way in which some committee of the Legislature or the House has a way, a year or so from now, of revisiting this to see what actions have been taken, or maybe we just do it ourselves. I'd like to discuss that and see if there's any way, having put out the report—as a committee, I think we've had a good consensus of action and we've listened and learned a

great deal. We will be able to table some very worthwhile recommendations. I know I go away the richer having sat through those presentations. I'd somehow like to have a sense of seeing something happen to it so that it doesn't just gain dust in the library.

Mr Kwinter: Mr Chairman, I don't know what numbering you're using and whether it's bullet point 4 or bullet point 3 of further research, but it's one or the other. I would like to maybe amend that to say, "The committee should encourage the provincial Ministry of Finance and others to research areas like compliance and enforcement." What that does is it directs them to do it without implying that they should expand to do it. If they research it, that's open-ended. There's no defining it as to how little or how much research, just, "Research it." If they say they're doing it, the committee is obviously saying it's not being researched sufficiently, but if you put in, "Expand research," that immediately implies that you want them to increase the bureaucracy and expand their ability to do it.

Mr Cousens: I support that.

The Chair: Any comments on any of those bullet points under "Further Research," maybe in particular bullet point 5 or the last point under that heading?

Mr Sutherland: It says a specific way of doing it, but I think our sense is that we don't have enough evidence to suggest that one specific way of doing it is going to give us a better handle, so I think if we incorporate the other recommendations about further research into the extent of the problem and the areas like compliance and enforcement, that's fine.

The Chair: The heading "Government Policies," including the last point on page 16 and the five points on page 17, will conclude our examination of these recommendations that we have before us today.

Mr Sutherland: I would say that for the most part most of these recommendations have been incorporated. We talked about the legislative accountability framework process that the public accounts committee—the review of programs. We may not have talked about a review to ensure effectiveness of government programs. That may be a point that we would want to put forward. But I think overall, as a general statement, things about regulation, streamlining, accountability have been talked about.

The Chair: The first sentence in bullet point 2 on page 17 is certainly one we would all support.

Mr Carr: I guess this is a good time to throw forward the suggestion I made, I think going way back to when we first discussed this, of what we can do in terms of making a clear statement. Where you put it, I don't know; probably under this section. But my feeling is that what I would like to see the committee do is come up with a clear statement, saying—and like a lot of people, I'd like to see taxes reduced. But knowing I probably won't get that through, I'd like to throw it up to the government members to see if they would support something where this committee says as a major recommendation, and I don't know where it could fit in the document, that this committee recommend that one of the biggest things we can do is recommend to the Minister of

Finance that in order to deal with the underground economy, this government will not introduce any taxes or fees for the remaining period of time that it's forming the government.

I saw Kimble sit forward, so I suspect that's going to go. Informally, I think you've heard the Premier say that he wasn't going to do that, although he also talks about fairness. As we wind down here, I'm glad to see we've got some of the members who have now woken up. I think I know the reaction, but if not, failing that, you should know that's what we will be calling for.

We may have to end up doing a very slight minority report if we can't get agreement, because I believe it's fundamental this committee should recommend it. I'd like to see if the government would do that, as Kimble champs at the bit to get your attention, Mr Chairman.

The Chair: At this point in time, I would also like to add that certainly with regard to government policies, I would think each group of caucus members here from the respective caucuses will probably have something different to say about government policy. It's very clear that's how the system works.

Mr Sutherland: I just want to say that I don't think we'll support Mr Carr's recommendation. There are several reasons for that.

Mr Lessard: He looks hurt.

Mr Sutherland: The world is not as simple as the Progressive Conservative Party likes to think it is.

Mr Carr: The member is simple, not the party.

Mr Sutherland: No, but I think if you take that into account, that says then that you can't do anything on issues such as environmental taxes, even some fees that went up this past year for specific licences. They went from \$5 to \$10. I have a lot of business people tell me those types of things should be directly related to the cost. Your recommendation would go against what certainly a lot of business people have even told me. I don't think we want to have a consensus from the committee that we believe a simplistic recommendation of just no increases, period, anywhere, is going to be the solution to the problem.

Mr Carr: We'll try again when it comes to our report on the pre-budget.

Mr Sutherland: Very well. Fair enough.

Mr Carr: We'll introduce the same one. Be ready for it, Kimble. You might change your mind between now and then.

1650

The Chair: With regard to the six bullet points on government policy, were there any specifics that the committee could agree on that it would like to send forward within the report?

Mr Sutherland: As I said, I thought most of the points had been put forward. I'm just not sure about points 3 and 4, evaluating effectiveness of government programs. I think indirectly we made some reference back there about tying that together, but we may want to make a stronger reference about ongoing efforts of the government to do that.

Mr Kwinter: It seemed to me that as we went through the recommendations, every once in a while we'd say, "Yes, well, that's covered somewhere else, so we don't have to worry about it." My only concern is that when I look at all of these under the particular heading, "Government Policies," and I think we touched on all of them, I just want to make sure that the intent is captured and that they don't get lost in the cracks where we've said, "Oh, it's covered somewhere else," and when we get to the point where it is covered, we say, "Oh, well, we covered it before," when we didn't. As long as the intent of these recommendations is covered, I have no problem, but I don't see any reason to repeat them or duplicate them.

Mr Sutherland: That's fair enough.

The Chair: Are there any further comments with regard to these? Seeing none, I would like to allow Ms Campbell to make a statement with regard to where we're at with this report.

Ms Campbell: Before I respond to that, there were three instances in the course of the discussion this afternoon when members said that the points under discussion would be put aside for further study or further research. Is it my understanding that those items should be included as recommendations, or were those just comments that were being made? The specific instances were the use of debit cards and increasing the number of transactions made through banking records, the need for greater audit surveillance and the posting of consumer prices that would incorporate taxes.

Mr Phillips: I thought that on the debit cards we sort of said that we aren't supportive of that.

Mr Sutherland: Yes, that's right; on the other two, I think we said further.

Ms Campbell: Those would go on the recommendations under further research needed?

Mr Sutherland: The last two; not the debit cards.

Ms Campbell: The committee will be meeting on the morning of February 2 to go over the next instalment of the report. I will have that ready for your reading no later than the beginning of that week, Monday the 31st.

Mr Phillips: Will we automatically get it or do we have to show up somewhere?

The Chair: It will be sent to the members from the clerk's office.

Mr Sutherland: On that point, do we need to deal with the issue of when any other comments from each of the caucuses should be submitted, or do we think we can leave that till February 2, when we get through the next draft copy?

The Chair: Because they probably, in fact I'm certain they won't be debated by the other caucuses, whether these are acceptable or not, so I believe it would only be necessary to have them put forward at that time. Would that not seem reasonable?

Mr Sutherland: So if anybody wants to put an additional report together to be attached to the report, it is due on that day?

The Chair: It would be a dissenting opinion and submitted the last day. That's right.

Mr Sutherland: Okay, great.

Mr Phillips: The only thing I'd say on that is that normally we allow ourselves a little leeway, just because in theory you'd say, "Maybe I can still persuade them," and blah, blah, blah. I'm not sure that each of our caucuses should feel they have to have it in that day if there is going to be a dissenting view, because in theory it is possible we'll come on the 2nd, only to find that the dissenting view emerges there. I would hope that on the 2nd we can come close to wrapping up the committee's report and that then we'd say that if any of us has a dissenting opinion on a portion of it, it needs to be there in the hands of the clerk by a certain date.

Mr Sutherland: I guess our goal should be that we'd like to report back for the first day the House is back, I would expect. Given that and given that most of the reports require translation, what type of deadline would we probably be looking at?

Clerk Pro Tem (Ms Donna Bryce): It's my understanding that on February 2 in the morning the full committee will meet to review the underground report and that at that point there may be a decision to authorize the subcommittee to finalize that report, I think it was agreed yesterday, on February 17. So I would say February 17 would be the appropriate time.

Mr Sutherland: Okay, great.

The Chair: This committee stands adjourned until 10 am tomorrow.

The committee adjourned at 1656.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

***Chair / Président:** Johnson, Paul R. (Prince Edward-Lennox-South Hastings/
Prince Edward-Lennox-Hastings-Sud ND)

Vice-Chair / Vice-Président: Wiseman, Jim (Durham West/-Ouest ND)

*Caplan, Elinor (Oriole L)

*Carr, Gary (Oakville South/-Sud PC)

*Cousens, W. Donald (Markham PC)

Haslam, Karen (Perth ND)

*Jamison, Norm (Norfolk ND)

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*Lessard, Wayne (Windsor-Walkerville ND)

*Mathyssen, Irene (Middlesex ND)

*Phillips, Gerry (Scarborough-Agincourt L)

*Sutherland, Kimble (Oxford ND)

**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Morrow, Mark (Wentworth East/-Est ND) for Mr Wiseman

Clerk pro tem / Greffière par intérim: Bryce, Donna

Staff / Personnel: Campbell, Elaine, research officer, Legislative Research Service

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Standing committee on
finance and economic affairs

Comité permanent des finances
et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

Chair: Paul R. Johnson
Clerk: Lynn Mellor

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 19 January 1994

The committee met at 1007 in the St Clair/Thames/Erie Rooms, Macdonald Block.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Paul R. Johnson): The standing committee on finance and economic affairs will come to order. This is the first day in a series of pre-budget consultations.

MINISTRY OF FINANCE

The Chair: I would like to welcome everyone here, in particular the Honourable Floyd Laughren, Minister of Finance. Today we have a presentation by the minister and ministry representatives. I'm in the hands of the committee as to how we shall proceed. I understand the minister is available until noon. Is that correct?

Hon Floyd Laughren (Minister of Finance): No. I thought the deal was I was here till 11. The cabinet meeting is going on and I'm supposed to be there.

The Chair: So the Finance minister is here until 11 and his assistants will remain to continue.

Mr Michael D. Harris (Nipissing): Mr Chair, before we begin, I have a motion that I would like to put before the committee. I recognize time constraints and I will try to be brief and direct.

I think members of the committee will recall, following the very first NDP budget, that we delayed proceedings in the Legislature because we felt Ontario taxpayers had been left out of the budget process. As you'll recall, we eventually held our own hearings on that budget around the process. We then called for a major reform of the budget process in some detail in New Directions, Volume One, which was released later that year.

Last year, on the very first day of pre-budget consultations similar to this, we called on the Minister of Finance to reform the budget process once again. He chose to go the old route and the end result last year was a budget that completely ignored virtually every presentation that was made, even from those who were here looking at spending priorities as opposed to tax and did not call for tax increases.

What the consultation process brought us last year was a budget that contained the largest tax grab in Ontario history: 10 tax increases generating some \$2 billion in new revenue.

It was a budget that produced higher taxes for the vast majority of Ontario families, including those with annual incomes as low as \$20,000, family income;

Another multibillion-dollar deficit projected at \$9.4 billion, rising to \$11 billion or \$12 billion or who knows, was the result of the process last year;

Another credit rating cut, the third in three years, as we followed the same process last year;

A set of books so fudged the Provincial Auditor refused to endorse them was the result of last year's process;

Employment policies so ineffective that at the end of the three years there were still 553,000 Ontarians out of work;

A continuation of disastrously high levels of dependence on social assistance; and I could go on and on.

As they say, if you keep doing things the same way, the predictability is you're going to get the same results. With results like those described above, we simply can't afford to do the same thing.

I say it's not too late to reform the process, and therefore I move that in order to restore effectiveness and integrity in the pre-budget consultation process, in order to provide the best possible framework and guidance for the Minister of Finance to develop the 1994 budget, the committee postpone the pre-budget consultations pending the following:

(1) The Minister of Finance provides the committee with revenue, spending and deficit projections for the 1994-95 fiscal year;

(2) GVA, government value assessments, are established to review priorities to provide a value-for-money analysis of all new and existing spending and avoiding duplication;

(3) The Ministry of Finance provides a status report on its efforts to address the concerns of the Provincial Auditor regarding the government's auditing practices;

(4) The Minister of Finance reports on the effects of the social contract to date and on the expenditure control plan, which was integral in the last budget;

For meaningful input to be given to the Treasurer by us and by groups, surely we're entitled to have that information today.

(5) Advance written briefs are obtained from all currently scheduled consultation groups in lieu of the oral presentations in order to use their appearance time for a truly consultative working session with committee members and relevant ministry staff;

(6) Additional time is requested from the House leaders in order to consult with taxpayers from all parts of Ontario and from all socioeconomic backgrounds.

I move this motion. I believe that it would lead to a far better process, far more meaningful input from interest groups and ordinary Ontarians, and put us as a committee in a far better position to actually give meaningful advice to the Treasurer.

Mr Gerry Phillips (Scarborough-Agincourt): I kind of question why this is before us. The fact is that we all agreed to the process, that the Minister of Finance is here now for 50 minutes to talk about at least three of these questions. For our part, we sent the Minister of Finance and copied to the committee virtually all of these questions two weeks ago, and I think the minister is here prepared to talk about answers to them or, if not today, to give the committee written responses on them. On two

of these proposals, if it had been the intention of the Conservative Party to want to proceed this way, all it could have done is said, "We'd like the written briefs."

My own view is that much of this is already being done and will be provided today; that is why we're here today, and the motion is in many respects redundant. We're already doing this. I kind of resent it being put on the table when we have the minister only for an hour and the staff only for three hours. I kind of hoped we'd get on discussing the answers to the questions in this brief.

I think the committee can order its own business. We order our business, we are doing much of this and I would prefer to get on with it.

Mr Kimble Sutherland (Oxford): I would just want to echo some of Mr Phillips's comments and add a few more. I'm glad to see that the Conservative Party is finally interested in full pre-budget consultations, knowing for many years when it was in government that extensive, wide-open consultation may not have occurred, to allow the public and many groups to participate.

I also want to say that there is a process for planning committee business. It's a subcommittee process. All three parties are represented. The third party had a representative there. If there were specific issues they wanted the committee to deal with in pre-budget consultation, they could have done that. I don't know why those issues weren't brought up at the subcommittee. Maybe the third party wasn't organized at that time to figure out exactly what it wanted to hear from the public and have discussed at the hearings. I understand from just briefly looking through the presentation here that some of these issues that have been put forward will be discussed and presented today.

If the third party has respect for the committee process, it would use the appropriate process, which is the subcommittee where the agendas are discussed and agreed upon by all three parties as to how pre-budget hearings would proceed. The Tories were represented at those subcommittee meetings, agreed to the process that was put forward. We have the Minister of Finance here and Ministry of Finance staff and we have many different groups coming forward. I agree with Mr Phillips. This motion really is redundant and is not appropriate.

Mr Harris: I don't know why this is a surprise. In 1991 in *New Directions* we detailed very specifically the budgetary reforms for the budgetary process and how we thought, if you wanted to make it meaningful, it should be followed. That was ignored then, it was ignored the next year, it was ignored the next year. Last year we made the same recommendations.

Clearly we are outvoted in the steering committee, we are outvoted here and we understand that, but we think it's important to point out the results of starting out and carrying on this year the same as we did last year. It was a sham. The taxpayers, those who made presentations, saw nothing in the budget of the types of recommendations and consultations they made.

So we want to go firmly on the record, saying that if you're going to start down the same path, you may just end up, based upon the last three budgets this Treasurer

has presented, with predictably the same results. We find that unacceptable to the taxpayers and the people of Ontario, and if the committee once again this year wishes to proceed this way, we understand. We will participate but with reluctance in a process that we think could be so much better, so much more open, so much more meaningful in truly providing advice to the Treasurer. So we think it's important that we restate again, for the third year in a row, our concerns and the fact that you've consistently ignored our advice.

Mr Sutherland: I want to repeat that the process for dealing with how pre-budget hearings should occur is the subcommittee process. These concerns that are being expressed today by the third party were never brought up at the subcommittee where they could have been dealt with. So it is very clear that either this was just a last-minute thought or the third party isn't exactly sure all the time how it wants to proceed, but they were never brought up as concerns at the subcommittee meetings.

Mr Phillips: I'm not sure Mr Harris is familiar with everything that's gone on here, but for our party, we sent the Minister of Finance a detailed, three-page letter saying, "Here are the things that we as a party want to discuss." The minister's staff have been working on that. We will get answers to that today or over the next few weeks. So that gives, I think, answers to three of the issues that the leader of the third party has raised.

On the written briefs, it is actually practice that we get written briefs from people who present. So number 5 will be done. I think we all debated how much time we wanted to devote to this exercise and all three parties agreed on number 6 on the timing. In terms of the government value assessments, that's why we're here, to understand what the government's plans are, and historically they've given us the plans for spending.

I'm keen to have a meaningful debate on the budget and the Minister of Finance appreciates that we will have that. I'm keen that we provide whatever advice we can. But to suggest that the motion that's before us is anything basically different than we already plan to do—except in a couple of details, and neither of those was raised at the subcommittee, as I recall it. So I think we should get on with it.

Mr Norm Jamison (Norfolk): I have to agree with Mr Phillips and my colleague to my left. It's interesting to see Mr Harris here for the first time in three years. The subcommittee that really steered this committee through developed a consensus to carry on in a certain direction. I find it passing strange to find the leader of the third party here today at the 11th hour to put forward these concerns. If I was to really call it the way that I perceive it this morning, I would consider it to be an opportunistic approach to this process that really is standing somewhat in the way of the Treasurer and his valuable time that has been allotted now being lessened by some 20-odd minutes. Again, the steering committee developed a very clear consensus on how this committee would proceed, and I find it rather strange that this type of happening would take place at the 11th hour.

1020

The Chair: At this point in time it would appear that

committee members would like to move forward and I will therefore put the question.

All those in favour of Mr Harris's motion? All those opposed? The motion is defeated.

Welcome to the committee, Mr Laughren. If you and your staff would like to proceed.

Hon Mr Laughren: Thank you very much, Mr Chairman. I knew that something was missing from my life in the last month and I didn't know what it was until I got here today and got back into the fray. I enjoy that.

I thought I should first introduce the people who are with me today. To my far right is David Trick, the assistant deputy minister; beside me is Simon Rosenblum, who is my chief of staff in the Ministry of Finance; Jay Kaufman, who is the Deputy Minister and Secretary of the Treasury Board; next Dr Peter Warrian, who is the chair of the Public Sector Labour Market and Productivity Commission, and to his left is Steve Dorey, acting deputy minister.

I will try to resolve or answer some of the questions that are raised in Mr Harris's motion during the presentation. I will go through the slide presentation, which I hope will be useful for members of the committee, and I'd like to keep it to about 30 minutes and then still allow 30 minutes for an exchange with members of the committee. If I take more than 30 in the presentation, we'll add that on to the time for exchanges with members, because I find that valuable and interesting and I hope that members will as well. If we could go ahead with the first of the slides, and perhaps if the lights were dimmed at the front, in particular, it would be helpful.

Just a reminder to members of the committee that we set out this year, as in the previous year, to have three priorities. One was to create jobs, two was to maintain the essential services of the province and third was to control the deficit. We have worked extremely hard at all three of those. I know that some members will have differing views on how well we've achieved any one of them, but we have worked hard at them.

On controlling the deficit, for example, we tackled committed expenditures this year and reduced them by \$4 billion. We increased government revenues by about \$2.8 billion in the budget, some consisting of tax increases and some consisting of non-tax revenues, and we implemented the social contract, which will effect savings of about \$2 billion. We are determined that as we go through that process we do what we can to maintain the essential services of the province. That is what people are telling us they want.

During the pre-budget consultations last year, that's what people told us they wanted. I don't expect Mr Harris to agree with me, but we did listen to the people during those pre-budget consultations and we did do what we could in very difficult times to create jobs, to maintain the essential services and to get the deficit under control. That \$4-billion expenditure control plan and the social contract were not painless exercises for the government or for the people of the province, but we felt that we had to do that.

On the jobs side, there were about 79,000 new jobs

created in 1993 and we worked with the private sector to make that happen by investing in infrastructure, by some economic development actions and through training and education initiatives: the base capital expenditures of about \$3 billion, which creates and sustains about 52,000 jobs; the Jobs Ontario Capital of over \$600 million, about 10,000 jobs, and we put in place our capital corporations that are up and running. That will help us implement some of our more strategic capital initiatives.

We have now the federal-provincial infrastructure program that was introduced by the new federal government and we are working very actively with them and with the municipalities and school boards to actually deliver that and make it happen. We expect that agreement to be signed next week, between us and Ottawa, and we expect that our investment in social housing will generate over 20,000 person-years of employment in 1993.

I will move fairly quickly through these so that we can get through the whole presentation. In the private sector, we've initiated through the Ontario Transportation Capital Corp some initiatives such as Highway 407, and consortia now are going to be coming forward with their presentations to the government. That's a huge project of about \$1.2 billion. That is a massive project that will create up to 26,000 person-years of employment. It is a huge construction project and it will serve a very useful purpose in the Metro area.

The convention centre will create about 2,700 person-years of employment. We know that in fairly recent times there's been almost \$4 billion in investments by the auto manufacturers. That's a terribly important part of the province's economy. Real business spending on equipment is up by about 10%; that's another important signal in the province.

Then there's the Windsor casino, which is controversial in some people's minds, but I can tell you, it's a \$375-million construction project, over 7,000 person-years of employment and over 15,000 ongoing jobs in the province of Ontario. That is real economic development.

On the economic development side, we do have in place the sector partnership fund which is a \$150-million fund for working with the private sector. We have the Jobs Ontario Community Action program announced by the minister earlier. That's \$100 million a year. We have the Ontario lead investment fund, which you may recall started out being called the Ontario investment fund. It now has become the lead investment fund, and that's in place now with private sector and public sector funding.

We have Technology Ontario, which funds the centres of excellence at the universities. There's been direct assistance in training and infrastructure for Ford and Chrysler that helped secure major investments in jobs. There was the assistance to Mitel, Inglis and DuPont that secured over \$250 million in investment and over 400,000 jobs. We have, as well, the manufacturing recovery program of over \$100 million. In the last two years we've assisted over 200 firms that have supported 14,000 jobs.

There are other success stories. We worked with Chrysler to secure a \$600-million investment for the new

mini-van in the Windsor plant. With Ford, we supported them in a \$1.1-billion investment for an engine plant, an aluminum-casting plant in the Windsor area, and with Mitel, we worked with them in Kanata near Ottawa as well. So jobs are being created.

We're also working very hard on education and training. You will know of the Jobs Ontario Training program, which is a three-year, \$1.1-billion program. You'll know that we have a lot of placements there and there are more being created all the time.

1030

I'll move fairly quickly through this. We do know that Ontario's competitive position is improving, that unit labour costs have actually fallen in comparison with major competitors. We have had a stronger rise in exports. Quite frankly, our productivity growth is impressive. Our inflation rate is low and the exchange rate now is considerably lower than it was a couple of years ago, so we are well placed for sustained growth in the next number of years, and I'll have some more numbers on that in a few moments. We do have a good infrastructure in the province. Business investment is robust, investment intentions are good and we have an extremely highly skilled workforce. So that gives a background of where the province has been and what we're doing to support economic growth and development.

If we could turn now to some of the specific numbers dealing with the economy and the way in which we see it turning around, the first slide shows on the left the real gross domestic product per cent growth and on the right employment per cent growth. You can see that real GDP in 1989 was up 2.2% and then how it plummeted in 1990 and 1991; it came up a bit in 1992, and in 1993 the recovery continues. Employment: You can see how employment dropped by 3.4% in 1991, even in 1992 down 1.2%, but in 1993 it has come up again at 1.7%. So the economic turnaround is happening. There are numbers to substantiate it. That does not mean that there are not continuing problems, of course.

If you look at the next slide, which shows some of the numbers between 1993 and the 1994 forecast, we are predicting that about 88,000 jobs will be created, that the recovery will be led by exports and business equipment investment, and that other economies are strengthening as well, which of course helps our export markets. There will be modest employment and income gains, and if you look at the unemployment rate you can see—and I noticed that Mr Martin just the other day was commenting on this as well—that the unemployment rate still is going to be higher than anybody wants it to be. There are more people coming back into the labour force even when new jobs are being created. It keeps the unemployment rate up there. No one that I know is happy about that and we'll all work as hard as we can to do what we can about that, but no question that the unemployment rate is going to decline slowly.

The next slide looks at the medium-term outlook between 1995 and 1997. Obviously, this is looking down the road, but we've put on the slide what we think the outlook is and the consensus average, which is the private sector forecasters and banks and investment companies,

as to what they think. It's a consensus of their views.

On real GDP, we are saying 4.3% during that 1995 to 1997 period. The consensus average is a little more than that; normal GDP almost the same; employment, they think it'll be a little higher than we do; unemployment rate, pretty close to being the same as the consensus average; and CPI inflation being the same as well. There will be average of about 124,000 jobs created each year. That's a considerable improvement. The last year that I was looking at was 1988, when there were 173,000 jobs created. So we're not up to that level of job creation, but still, 124,000 certainly indicates an improvement.

The next slide looks at private forecasts and what they think Ontario's going to do, and you'll see that our forecast for Ontario—this is actually 1994 to 1997—is 4.1% growth per year and the consensus forecast is for a little more than that, 4.2%. But the one reason for putting this slide up is to show that Ontario is well placed in comparison with other leading countries, all of which are our competitors. So we are well placed and we should take some encouragement in that.

The next slide—sometimes I get asked about particular sectors and I don't think you want to spend a lot of time on this—you can see that on the left-hand side it shows in the clear bar real output and on the black bar employment. You can see how output is growing in every case faster than employment. That's partly because of productivity improvements and so forth, but in a sense that's a competitive advantage even though one doesn't like the fact that employment isn't growing as fast. You can see that the export-intensive sectors are leading the way to the consumer-related sectors and very, very slow growth in the public sector, but I think that reflects our efforts to keep our costs down and to reduce deficits and at the same time to deliver our services more efficiently.

If we could look now at the fiscal picture, which is gradually improving, the number you see there is what we presented last spring. That's where we were headed. We were headed for a \$16.7-billion deficit. That was not an exaggerated number, that's where we were headed, and the actions we took on the expenditure control plan, the social contract and the tax increases, get us down. We started out saying it was \$9.2 billion. It now looks to be about \$9.5 billion and we think that we'll come in right about \$9.5 billion at the end of this fiscal year, at the end of March. We are committed to keeping that deficit going down.

The next slide gets more specific, into the revenues and expenditures, and you can see that in the budget plan for this year we plan for \$43.9 billion in revenues and there's been an in-year change of about \$830 million. There are details on that in a slide that's yet to come.

On the operating expenditures you can see on program spending our current outlook is to come in about \$200 million under what was in the budget. Public debt interest stays the same. That would give you the operating deficit when you subtract the revenues and expenditures. We'd planned for \$6 billion. It looks like it's going to be about \$6.745 billion. Then on to that must be added the capital expenditure. Also not included there, before you ask, is what we call alternative financing or off-budget financing

of about \$800 million which isn't on there but would be part of our borrowing requirements.

Our deficit at year-end we predict will be around \$9.5 billion. We don't have the final Christmas retail sales tax numbers in yet. That'll be in the next little while.

The next slide shows a breakdown of where the major changes on the revenue side are, and you can see that personal income tax is a big chunk and reflected federal government overpayments for 1992 rather than this year. Then you have retail sales tax off about \$40 million—that's on a base of \$8 billion; corporations tax down \$220 million; employer health tax minus \$30 million; tobacco tax minus \$70 million from our budget plan, and land transfer tax down \$90 million etc. That's where the revenue hits come from and we continue to track those, of course, but we think that's pretty close to what we'll end up with. As I say, we don't have the final RST numbers. As a matter of fact, we don't have the corporate income tax numbers. They're not in yet either. I think they come in in February or March.

1040

The next slide: There have been some questions on our expenditure control plan. This is the plan that I mentioned earlier in which we had set out to save \$4 billion from committed spending this year. Out of that, the biggest chunk was our own operations, \$720 million in government. Third Quarter Finances that will be out will show some slippage in that, but basically we're doing all right on it. It's been tough, but the pie there shows where we intend to get the savings of \$4 billion.

The next slide deals with the social contract. I was surprised to read in the paper last week that we were not going to achieve savings in our social contract. I look forward to the exchange with the third party, because they must have had some reason for saying that and they must have had some evidence that we weren't going to achieve our \$2 billion in savings. So I'll be very interested and look forward to hearing where that came from. We do think that we're going to achieve the \$2 billion, almost, and the following chart will show exactly how much we were intending to save.

There have been very few layoffs associated with it. The job security fund is operating with interim guidelines for employers and employees. The public sector commission, the labour productivity commission headed by Dr Warrian, is up and will be fully operational by the end of this month, but they're already doing lots of things. The sector training and adjustment committees are working. Keep in mind that this is a three-year process. It's not a six-month process or a one-year process; it's a three-year process, and we intend to achieve the savings that we set out.

If you go ahead to the next slide, you'll see the social contract savings by sector and how it totals almost \$2.1 billion, actually. We've always talked about the \$2 billion in savings, but about \$2 billion each year for each of the next three years. This year I think we'll probably miss the \$2.1 billion by about \$100 million, so we'll still be at about the \$2-billion level of savings.

The next slide shows where we'll miss, why it won't

be the full \$2.1 billion. You may recall that there was \$100 million retained by Ontario Hydro because of their unique problems. There was \$10 million retained by the WCB and their related agencies, and \$2 million by the Ontario Housing Corp, which had more to do with the federal-provincial cost-sharing arrangements than anything else.

On the municipal side, we deferred \$55 million, because they're on a calendar year versus us on a fiscal year, but we'll pick that up at the end of the three-year period, into the fourth year. Then also, we allowed the municipal electric utilities to retain the \$14 million so that they could pass those savings on to their ratepayers.

So if you add all of those up, if you started with \$2.1 billion in savings and you end up with almost \$200 million off that, you end up with about \$1.9 billion. So we'll probably be about \$100 million short on the \$2 billion in targeted savings, but it will be very, very close to the \$2 billion and we see no reason why we will not achieve that this year.

You may want to talk to Dr Warrian later about some of the ways in which we're working on the efficiencies and with the job security fund and so forth, which I think is an important component of the social contract. I know there's been a lot of talk about simply the savings and it being a fiscal initiative, but it's more than that. It has a lot to do with restructuring the public sector, and we are determined to make that happen. We've got three years under the social contract to effect that, and we're working very hard on that now.

If you look at the list that's on the slide, all of the agreements by sectors provide for training and adjustment committees. They will operate sector redeployment registries, so there will be a registry across sectors of people available as restructuring goes on in the public sector. The administration of the job security fund applications will eventually be decentralized to those sector committees. Unions and employers will approve training plans for the employees. Sector committees have been established for all sectors where any layoffs have occurred, which are not very many. The requirements for payouts for UIC top-up from the job security fund include laid-off or on-notice people due to the social contract. There are currently, I understand, and if it's different Dr Warrian will bring you up to speed on it, about 83 job security fund applications, of which 70 have been approved and 13 are awaiting training plans to be eligible for the job security fund.

The next slide shows our commitment to making our government services more efficient and more affordable. The slide shows the spending and operating programs from 1984 right through to 1993-94. You can see the drop to an actual minus number for operating programs. Of course, these are operating programs and do not include interest on the public debt, for example. I know we've worked very hard on it and it is showing results.

As a matter of fact, the next slide isolates two major areas of expenditure growth. One is social assistance, the top chart. Going back from 1981-82, you can see how rapidly social assistance expenditures were growing and how now, despite the recession, still being in it, we're

bringing those costs down. On the Ministry of Health operating expenditures, they averaged about 11% all during the 1980s, and we've brought that down to less than 1% last year and almost to zero this year. I can tell you that if you were to isolate the drug benefit plan in here, it would show 18% or 19% growth all through the 1980s. So we've simply had to curtail that kind of growth in those sectors because we couldn't afford it.

If we can move to the 1994-95 fiscal outlook, this year's deficit, as I said earlier, is tracking at \$9.5 billion. We remain committed to a steady deficit reduction as the economy recovers. That's harder than it sounds, because revenues are not going up very much even as the economy recovers. So that's been tough. For 1994-95, for example, we anticipate revenue shortfalls of about \$1.6 billion for next year over what we had thought they would be. Also, there are going to be some expenditure pressures, and we'll detail those for you too. In the next month, treasury board will be looking at ministry expenditure plans ministry by ministry for the 1994-95 year. We'll try to strike that balance between keeping those expenditures down and at the same time thinking about their impact on jobs and on essential services as well.

The next slide shows the 1994-95 revenue outlook. We had predicted \$44 billion and now it'll be \$46.5 billion. Currently it's \$43.1 billion for 1993-94, so we're off \$900 million for 1993-94, and for 1994-95 we're off by that \$1.6 billion I mentioned which we originally thought would be our revenues that year. It's largely due to a number of shortfalls. That \$1.6 billion, and this isn't on the slide, consists of lower PIT revenues that have already been reflected in overpayments for the 1992 year, and then that gives a lower base for subsequent years. There is \$300 million from the lower corporation tax. It'll be operating from a lower base because of the decrease this year. There's \$100 million in retail sales tax revenue because of the lower economic outlook numbers. There's \$100 million because of lower EPF revisions, not because of an arbitrary reduction but simply because of the lower population numbers for Ontario. There's a \$100-million shortfall from what we call our non-tax revenues. We think they'll be \$100 million lower, and \$200 million from other tax and non-tax revenues, largely because of the slower economic recovery. So that's where next year the numbers are still going to be very difficult. That's the revenue pressures next year.

1050

The next slide shows the expenditure pressures next year. Under our expenditure control plan, we put in place some labour adjustment policies and a redeployment fund. There's going to be a pressure of about \$95 million there. We had originally put in our plan some cost-sharing for the Ontario drug benefit. We changed our minds on that and decided not to do it, but that cost us \$100 million from what we had built into our revenues for 1994-95. Social assistance costs we think will be \$100 million higher than we'd anticipated and the same with the student assistance program and legal aid, just from a higher client base there. So those are the pressures on the expenditure side.

Turning to some of the problems with the federal

government and its transfers, this you will know has been a continuing source of considerable aggravation and fiscal pain for the province. We will lose this year about \$4.4 billion as a result of the arbitrary restrictions that the federal government imposed on us. That's from the EPF and from what we call the cap on CAP. Right now Ontario receives about 29% of the cost of social assistance because of the cap on CAP. Other provinces receive 50%. That alone will cost us about \$1.7 billion this year. The limits to EPF growth will cost us about \$2.8 billion this year alone. Those transfers now cover about 31% of our spending as compared to 52% in 1979-80.

I would remind members that when many of these programs were put in place, they were put in place with the understanding and the assumption that there was a partnership with the federal government in the cost of them. That has been changed. I often wonder to what extent many of those programs would even have been initiated if it hadn't been on that assumption that the federal government was going to pay 50%. It is no longer doing so and we end up carrying the difference.

The next slide shows the limits on the transfers to the province that I referred to. If they were not in place, our deficit this year would be not much more than half of what it is now. It would be less the \$4.4 billion. It would be \$5.1 billion instead of \$9.5 billion. That's the kind of problem that we're facing.

We have a federal-provincial finance meeting starting tomorrow night and running through on Friday, and that's obviously one of the things that we'll be talking about. I'll get to that.

There are some slides on the underground economy. In the interests of time, unless members really want to see them now, I was going to skip those. They're in your package, so we're not trying to keep them from you, but if you've no objections, we'll go ahead to the tax fairness section. Is that all right? Okay.

Improving tax fairness: Members will know that the Fair Tax Commission has reported. We are looking at that report and I'm sure many of you are as well. We have indicated already that we have no plans for any significant net new taxes in 1994-95, but that doesn't mean there won't be some rejigging. We haven't made decisions for 1994-95 yet, even on rejigging of existing taxes. I'd appreciate your advice in that regard.

We have worked hard on the tax system to make it fairer. There have been substantial tax increases, of course there have, but we've really tried to make them progressive in nature. That's why we've relied a lot on the income tax system and enriching the Ontario tax reduction program for low-income taxpayers. The seniors' tax grants were replaced with refundable credits; the employer health tax was extended to self-employed; we've introduced a corporate minimum tax; we've reduced some corporate tax expenditures and closed some loopholes; and of course our very first bill that we introduced was to stop the retail sales tax from being applied on the GST as well. That saved the taxpayers of this province about \$500 million.

The Fair Tax Commission recommendations: I don't think we need to go through them all, but I'm very proud

of that report. It's the first really comprehensive look at Ontario's tax regime in 25 years, since the Smith report 25 years ago. It brought together an enormous number of people who had expertise but also ordinary folk out there who had a say in the tax commission's deliberations. They held hearings all across the province. They have brought forward 135 recommendations that cover a very broad array of tax mixes.

Some of the things they've recommended are of particular interest to us. One of the centrepieces was the property tax, changing that to a different mix, such as the income tax system, and we're looking at that. You will set your own agenda, I appreciate, but any work you do at looking at the Fair Tax Commission and reporting on it would be very, very much appreciated. We'd be very interested in any work you do if you do decide to look at the Fair Tax Commission.

They do talk about that, of course. They recommend harmonization with the RST and the GST in the interest of efficiency. They recommend more emphasis on environmental taxes. They want a fairer, more open tax policy process—I'll address the process at the end of the slides—and also to abolish the \$100,000 general lifetime exemption for capital gains.

I feel very strongly about that. I know we have our own work to do on the tax system, so I'm not suggesting that only the federal government has to respond to the Fair Tax Commission, but certainly one of the things that I will be suggesting and encouraging the federal Minister of Finance to do is to abolish that in the interest of fairness, and quite frankly revenue, to abolish the \$100,000 exemption on capital gains and to look seriously at a national wealth tax as well.

Anyway, we are looking at the Fair Tax Commission. I think everyone understands the system couldn't digest all the recommendations in that report in one budget, and I don't think you would either expect or want us to, but we are looking at it.

The last part of the presentation deals with the pre-budget consultation. We do want a more inclusive and more open consultation process. Each year we've changed it a bit, and this year we'll be changing it again. We're going to have eight Toronto-based forums pre-budget, plus the session with the Premier's councils and the Ontario business advisory councils, and we're going to travel to four regional centres—Kingston, Windsor, Hamilton and Sudbury—to have consultations there to get a perspective that gets outside southern Ontario. All of the forums this year will be open to the media to make them more open. That has not been the case in the past. It's all going to start on February 8 and will end in mid-March. So we are trying to make it a more open process.

1100

We're going to concentrate in the consultations on job creation and the economy, on the Fair Tax Commission report itself and on preserving social services, and, as I said, we're going to make it more open. The Fair Tax Commission had a lot to say about making the budget process more open, and we plan to do that in as open a way as possible.

To do that involves a couple of things. One, budget secrecy will now be more like the normal cabinet confidentiality process, where you do have to have some confidentiality in the system, and I think members appreciate that, but we believe leaks of interim material or draft material should not be considered budget secrecy. If we're going to make it more open, well, we can't have it both ways. We're going to make it more open, and I know that, if that's the case, you would not demand my resignation if there's a leak of an interim document, that you would understand that that's part of the price you pay for making the process more open.

Mr W. Donald Cousens (Markham): Let the whole government quit.

Hon Mr Laughren: The member for Markham is off and running.

We are quite serious about making it more open. We're not going to have the Ontario Provincial Police at the Frost complex, the Finance complex, where they've been for ever. Every budget I can ever remember has had the OPP there, since before we formed the government, but we're going to only have them there at the very final stages when we've got a final document and leakage of that could potentially allow someone to have a financial gain. I don't think any of us want that. We are trying to get it to a point where there's really tight security at the very end when we're dealing with the final document. We think that will save about \$200,000 a year on security. I think that's an important signal to send as well. We are determined to make that happen. I suspect there will be some vibes around it, but that's okay. I think we're better off doing it, that everybody will be better off for it.

In conclusion, we do want to indicate to members that the economy is continuing to strengthen and that jobs are being created and that the province is well positioned. The deficit is under control. It's still a tough, tough problem to keep that deficit going down while maintaining essential services. That's not easy. It would be easy if you weren't so concerned about the essential services, but I think most of us are.

There is an opportunity now for a new partnership with the federal government. We want to make it work. We sent signals as early as possible that there are some irritants that must be removed but that we want to work with the federal government.

Finally, we're heading into a time when we want to have a more open pre-budget process so that we talk with people about some of our potential decisions and people can respond to them.

I didn't time it when I started. I think we should certainly go to 11:30, so I'm in your hands, Mr Chair.

The Chair: Thank you very much for allowing yourself to remain for another 25 minutes. We'll divide the time evenly and start with the Liberal caucus.

Mr Phillips: I appreciate the chance to get at the budget process. I'll start by saying I hope we'll have a chance to discuss our detailed questions. I found the report didn't touch on a lot of the questions we had, and I hope we get into it with the officials and get written responses.

My own overview comment on your report is that it's a little bit different from your summary comment. I regard the presentation, what we've seen to date, to be somewhat bleak and somewhat discouraging as opposed to the optimism you have. I'll give you the two things that bother me the most in the presentation.

One is that this budget will bring you into the fifth year of the Rae government. As I look at the job numbers in the province, after all your job programs and all the activity, the number of people out of work in the province will still be virtually unchanged and at essentially record levels in 1994. As I see the numbers, there will be at least 560,000 people out of work. As you pointed out last year, there's another 150,000 or more discouraged workers who aren't even in those numbers. As I say, after all this activity and all the economic "growth" and taking into account all your programs for 1994, as I understand your numbers, we will still see essentially a record number of people out of work, with the reported unemployment rate running above 10% and the real unemployment rate running above 13%.

Have I interpreted your numbers properly, that we are looking at roughly 560,000 people still being out of work and another perhaps 150,000 people who aren't even in those numbers being out of work? Is that all there is in 1994 for the unemployed?

Hon Mr Laughren: I noticed, when I was going over the numbers, that it does give one pause for thought when you see those numbers. I was looking at the federal numbers as well. I don't mean this as a partisan shot, certainly not at you, but when the federal election was going on, the Tory leader, Ms Campbell, said, "This is what the unemployment rate's going to be," and she was really clobbered by the present government in Ottawa for being so pessimistic. Now I notice this week that Mr Martin is confirming those numbers, so I'm not sure that saying the numbers are not accurate is a very honest response on my part. The private sector forecasters are saying that those are the unemployment numbers, the best we can come up with, the most accurate. It's always easy, I suppose, to fudge numbers, but that's not our intention. Those numbers are as straight as we can give you.

There is only so much a provincial government can do; I'm sure you can appreciate that. But it's one reason we've kept our capital spending up to the levels we've kept it. It would have been very easy to reduce capital expenditures during these tough times, but one of the main reasons we've kept the capital spending up is because of the unemployment rate and also because it keeps the infrastructure tuned up as best we can for when the recovery occurs, as it's starting to do now.

We're doing a lot, we're doing what we can, but I'm not going to pretend to you that a province like Ontario can turn this around.

Mr Phillips: I understand that.

Hon Mr Laughren: Okay. Finally, we have—and I can give you the precise numbers—created about 300,000 jobs in the last three years. That's a lot for a province in the middle of a recession.

Mr Phillips: I just looked at those numbers yesterday,

and I would say to you that capital expenditure this year is \$300 million lower than it was two years ago. I'm just saying I don't think we should play politics with people.

Hon Mr Laughren: That's right.

Mr Phillips: The second thing of big concern to me is the very disturbing news on the revenue side we got today. To me, looking now at a revenue shortfall of \$1.6 billion, it throws off a huge signal. Many people, myself included, have been looking at the medium-term fiscal outlook, and if 1994-95 is slipping by \$1.6 billion, that puts into question your whole medium-term fiscal outlook. That's the second most disturbing thing I've heard here today, that the revenue is in serious jeopardy for 1994-95. We're talking major dollars here. My own cursory interpretation of it is that there's a distinct possibility we're heading for our fourth straight year of a roughly \$10-billion deficit if those are the revenue numbers you're predicting now.

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My question is one I have asked before in a different forum: What is causing this revenue shortfall? You've taken taxes up. That's not a partisan statement, to use your language; that's just a statement of fact. You've taken taxes up by, I think, roughly \$3 billion over the last three years. But as I try to interpret these numbers, rather than tax revenue going up over those three years, tax revenues actually dropped. I hope you can give us an explanation or that we'll have a chance to discuss what has caused that. That's not a new question for me, but that's the second most disturbing thing.

The most disturbing thing for me is the employment situation, which I don't take any comfort in. The second is that I think we have a major long-term revenue problem here that we need an explanation for.

Hon Mr Laughren: The \$1.6 billion is the number to which I think you're specifically addressing your comments. Half of that is on the PIT side. That's \$800 million. That \$800 million is split between repayments for the 1992 year. Now, it doesn't give me much comfort in terms of 1994-95, but to explain where it's coming from, it's not coming from 1994-95; it's because of overpayments for 1992. The other half is from a lower base from which we then function on income tax for subsequent years. So half of that \$1.6 billion is on the PIT side, going back to 1992, and then subsequent years with that new base.

Mr Phillips: But is it fair to say, Minister, that tax revenue in 1994-95 will actually be lower than tax revenue was in 1990-91, that after all of this activity with increased taxes, we're actually generating less revenue with taxes than we did in 1990-91?

Hon Mr Laughren: If you're off, it's not by much; I think that's probably pretty accurate. Another way of looking at it, Mr Phillips, is that if we had not done those tax increases—I might get some quarrel from some of you about this—it would truly be fanciful to say that revenues would have gone up or would have stayed the same if we hadn't implemented any of those tax increases. I don't think objective-minded people would make that case. There's no question that the revenues

would be lower than they are now if we hadn't brought in those tax increases. I'm sure you understand that.

The depth of this recession has been truly profound. I'm not sure it's sunk in on everybody how profound it's been. I can tell you that the main reason for it is the economic recession. That's what's hammered us on our revenues. Look at the unemployment numbers to which you refer. Those are people who in many cases were making substantial contributions to the tax system, not just on the income side but on the retail sales tax side and so forth. There's no question that revenues have been the number one problem, along with unemployment and so forth; there are other problems, but on the fiscal side.

While you may not approve of all our efforts on the expenditure side, you can see by the charts that we have worked extremely hard and had some accomplishments on the expenditure control side. It's much harder to crank up revenues than it is to control them, in-year particularly. When your revenues drop, your revenues drop.

Mr Monte Kwinter (Wilson Heights): Mr Minister, I find it difficult to accept your final summary on page 4, your last slide where you say the deficit is under control and on a gradual downward track. In your first budget of 1990, where you showed a five-year projection of where the deficit would be, you went from a high-water mark of \$9.6 billion, I think it was, which you didn't achieve, and it was supposed to keep reducing quite dramatically until 1995. In fact, what has happened is that it's gone the opposite way. Every year the deficit has increased over the previous year, and you've taken the debt of this province, right now in the current term, and doubled it in that time. Your projection, particularly with your off-book projections, is that it's going to be over \$10 billion. How can you say it's under control and is gradually reducing when the facts are that it's just the opposite?

Hon Mr Laughren: That's not quite fair. This year our deficit will be lower than it was last year, next year it will be lower than this year, and the year after that it will be lower again. There's nothing magical about it.

I shudder to think of what would have been the case if we hadn't engaged in the expenditure control plan and the social contract and the tax increases. It really would have been—and it's not a puffed-up number—\$16 billion, \$17 billion. That's what I mean when I say we've got that kind of growth under control on the deficit and have started it now on a downward slope and we're going to keep on that downward slope. We simply can't allow it to do otherwise.

It's one thing to have increasing deficits as you slip into and experience a recession. It's another thing to have increasing deficits as you come out of the recession through a recovery. Even though it's going to be a slow recovery with high unemployment, you still have to get those deficits on a downward slope. I have no quarrel with you on that.

I look at what happened at the federal level with the deficit as an example of how tough it is. Once again, not as a political comment, but look what happened to the deficit at the federal level: It went through the roof. We at least have got it more under control. We're still continuing to work at it, but it's been tough.

Mr Harris: Thank you very much, Mr Minister. I appreciate the fact that you're here a little longer than you'd originally planned.

Let me also comment on the regional forums and increasing the openness. A surprise perhaps, coming from the opposition politicians: I agree with you. I think the budget secrecy is a sham and that it far outweighs any sense of trying to trick somebody into having to resign because of this, this or that. The openness and demystifying the process is something I've pushed for and promoted since New Directions in 1991. We are very supportive of it. We may call for your resignation for other reasons—

Hon Mr Laughren: You already have.

Mr Harris: We already have, which you appreciate and understand.

Hon Mr Laughren: I understand it. I don't appreciate it.

Mr Harris: That's right. I would hope some of this \$200,000 in savings isn't used to hire the OPP to investigate who came out with the leaks. Anyway, that will be another matter for another day.

Hon Mr Laughren: That's Gerry Phillips's question.

Mr Harris: We're delighted that the forums this year will be open to the media; in fact, I hope they'll be open to the committee members. I recall last year. Not only should the committee members have been having the forums, but they were told they weren't able to go to them. They were disinvited, as were the media. I think this is a significant change. It doesn't go as far as I think it should. I don't know what the purpose of the committee is, quite frankly. I think the committee should be hosting these forums and I think even more information should be shared with those who are coming to the forums. Perhaps we're all making progress here, that even the committee members, I assume, will be able to go to these forums and that they'll be around the province now that the media can go as well. I just wanted to congratulate you on those two moves. I think they're good moves.

Hon Mr Laughren: But now?

Mr Harris: Yes, now I have a few specific questions. Your revenue projection for 1994-95 is \$46.5 billion. You then go on to talk about the transfers from the feds that you're concerned about. Nowhere do you give us the figures that they transferred and the increases year over year. My understanding is that in 1991-92 the feds transferred you substantially more money than they did the year before, also in 1992-93.

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I understand your concerns about the 50% funding. You feel they unilaterally didn't live up to that commitment, and they feel you unilaterally changed the program spending without consulting them, and we pointed the fingers back and forth. You talk about this new sense of cooperation, though, and we all hope this is going to come about. We wish Mr Martin and the federal government well over the next period of time.

In your \$46.5 billion of revenue, how much of an increase do you expect from Paul Martin this year?

Hon Mr Laughren: Just as a minor correction, you're right that we budgeted revenues at \$46.5 billion. Now we're saying that our revenues are going to be off by \$1.6 billion, which takes us down to \$44.9 billion.

Mr Harris: I'm sorry, \$44.9 billion is the new figure.

Hon Mr Laughren: Yes. Your question still remains, though. As a matter of fact, that's a question I wish I could answer.

Mr Harris: How much is in there now? You've obviously estimated a figure. Do you project that the feds will give you the same money, less money or more money than last year in all the transfers?

Mr Jay Kaufman: We're expecting, obviously, under CAP, an increase. The current cap is a 5% growth on this year's base. Under the EPF, it's frozen on a per capita basis, so if we see some increase in the population we would expect to get from that some increase.

Mr Harris: We're obviously going to find out more. I think Mr Martin has said, "Don't expect any increase."

Mr Kaufman: We'll get you the specific numbers; that's not a problem.

Mr Harris: I think that will be significant, and that will unfold over the next period of time.

Second, I want to get into the social contract part, but let me talk about jobs. I too consider these figures very bleak: the job projections, the deficit projections, the revenue projections; all indicators of economic activity.

You repeated something today that I found strange: that you've created 300,000 jobs with your interventions. The Premier said that yesterday and the media said: "We think you're fudging those numbers, pulling them out of the air. Where do you get those from, Premier?"

Your Finance officials finally released something to the media that shows the number of jobs being created, this sheet that talks about anti-recession, base capital, jobs capital, 1991-92, 1992-93, 1993-94. Cumulatively, it shows 300,000 jobs having been created as a result of your expenditures. It doesn't take into account all the jobs that were lost, that net, over many of those years, we lost jobs, but it says there were 300,000 created. To get those 300,000, your figures show that you only spent \$12 billion, or \$40,000 a job.

Finance officials also admitted to the media yesterday that these were basically one-year jobs and that at the end of the year they disappeared. Do you think spending \$40,000 per job is a good government expenditure to create part-time jobs that disappear at the end of that year? That's what your Finance officials have told us, the information the media got yesterday, to somehow justify this wild claim by the Premier that "We created 300,000 jobs," and you've repeated it today.

Hon Mr Laughren: Yes, and I'll re-repeat it.

Mr Harris: So the \$12 billion was well spent for these one-term jobs?

Hon Mr Laughren: Wait a minute now. You're making an assumption about them being all one-year jobs, which is not the case.

Mr Harris: That's what your officials told the media yesterday, that most of them were one-year jobs.

Hon Mr Laughren: I suppose you could make the argument that building a house creates a certain number of jobs for one year, to build a house or whatever.

Mr Harris: Exactly.

Hon Mr Laughren: But if you keep on building houses, those jobs don't all end in one year either.

Mr Harris: So you're going to keep spending the \$12 billion year after year to create these jobs and keep them going? Your figures show these jobs, at \$12 billion to support them, are \$40,000 a job. Do you plan to keep spending \$40,000 every year to keep these jobs going and roll them over year after year?

Hon Mr Laughren: We're going to keep our capital expenditures up at a level that supports jobs and creates jobs. I think you'd be the very first one to be critical if we weren't doing it. You may quarrel with some of these programs and say we should be doing something else, but I haven't heard anybody say that we shouldn't be spending the amount we're spending on capital. If you've got some suggestions that would create different kinds of jobs or that would build different kinds of homes, I'd be interested in hearing them, but I can tell you that without this kind of expenditure the unemployment rate would be higher, social assistance rates would be higher and revenues would be lower. You can't have it both ways.

Mr Harris: I guess it's the numbers. I clearly believe that if you hadn't taxed the \$12 billion and had resigned, hundreds of thousands more jobs would have been created by the private sector in this province, but we will have a disagreement on that. I don't think it was an efficient use of taxpayers' dollars, that the taxes required destroyed far more investment in jobs than these temporary ones you got.

Let me go to the numbers on the social contract. You project there's going to be \$2 billion in saving, yet you don't give us any numbers. We have no indication of what was spent last year, how much was spent this year, and the saving. What we think you're going to do, Treasurer, is that after the money has all been spent you'll say: "Well, we would have spent \$2 billion more and we didn't, so there you are. Look at the saving." This is what the auditor fears. This is what accountants fear.

I have a letter from an accountant who was very concerned about accounting and what it meant for accountants who had contracts with public agencies. He says he contacted the Institute of Chartered Accountants of Ontario, concerned over the possible latent audit responsibilities arising from the social contract. The institute has looked into this, contacted the Ministry of Municipal Affairs, the Ministry of Health, the social contract secretariat. All these bodies have advised the institute that there'll be no follow-up on compliance with plans submitted by the municipalities or other government-related agencies. Clearly, you don't have to worry out there, all you auditors who are going to be auditing the books—

The Chair: Mr Harris, I have to interrupt you to tell you your time's expired, but if Mr Laughren would like to respond to what you've said so far—

Mr Harris: Can you give us some assurance that

there will be any kind of audit that you actually saved anything or that in fact there was no saving? We have no way of knowing.

Hon Mr Laughren: You divided your question into two sections, one dealing with our direct employees, the Ontario public service, the roughly 90,000 people who work for the Ontario government. I think you would appreciate where the saving is achieved there, through unpaid days off.

Mr Harris: When the Provincial Auditor verifies it, I'll agree.

Hon Mr Laughren: Fine. He doesn't wait for us to tell him what to do—maybe you've noticed—so he will do that.

Mr Harris: The bulk of the \$2 billion is outside of that.

Hon Mr Laughren: That's right. That's why I said I'll divide it into two sections. One is our own employees, for whom unpaid leave and other savings are being received; that comes to over \$200 million in each of the next three years.

In the broader public sector, as we call it, transfers are reduced to them. When we reduce their transfers, that's a saving, and they effect those savings through compensation reduction. Quite frankly, once we've reduced their transfer, and there are certain rules under the Social Contract Act, then the saving is already achieved. Once the transfers are reduced, the saving is realized. It's done. It's a done deal then.

With our own employees it's an ongoing process of trying to work out the combination of days off and other savings as indicated in the Social Contract Act. I don't think it's a problem, but we invite anybody who wants to audit it. The Provincial Auditor will do it if he wants; we don't tell him what to do.

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Mr Jamison: Just a comment and then a question. Both Mr Phillips and Mr Harris have indicated that they're not pleased with the projections from here, but on page 13 of the report you've given, it certainly shows Ontario well ahead of most industrialized countries in our projections on GDP. If they consider that to be bleak, I wonder what they would consider those other countries to be, given the same time period.

The question I have really deals with the transfer payment issue. We've heard a lot about this issue, and I find it interesting that \$4.4 billion is the figure this year in the continuing reductions since 1982. It would be rather handy at this point in time.

The concern I have is that we stand at 29%. I believe there are three provinces affected with the cap on CAP and so forth. But as an example, the province next door to us, Quebec, with a similar economy, is still receiving 50-cent dollars. They're experiencing deficit problems, as most provinces are. The impact of that continual reduction in percentage is significant to this province, because this province has been hardest hit through this recession because of our industrial base, as reorganization in manufacturing has taken place and subsidiary plants have been taken away as much as possible through the climate;

free trade, whatever. My understanding is that you said it's one half of the deficit figure. That's very significant.

I understand that you're going to be meeting in the next day or so with your counterparts federally and provincially. The concern is that the federal government has indicated somewhat that it's looking at keeping the transfer payment the same. In my understanding, that would again reduce the percentage we'd receive, ultimately, and continue that problem. I'd like you to make a comment on what impact that has on those shared program costs in social services, health and education, which I think you mentioned, and I agree, should be a real cost-share situation.

Hon Mr Laughren: If you look at the provinces that share our problem, Alberta and British Columbia, on the cap on CAP, Ontario is in a league of its own in terms of the impact on us of that action by the federal government. I indicate on a slide that that's costing us about \$1.7 billion this year.

I stand to be corrected on this by officials who know more than I on these specifics, but I think both BC and Alberta are close to receiving 50-cent dollars on those programs, the cap on CAP. It hasn't had the impact on them that it's had on us because of our very dramatic increase in social assistance spending.

I remember thinking about what would happen in Quebec if the same thing happened. If it dropped to 29% of social assistance, a little over \$1 billion—and once again I stand to be corrected—would be the impact on Quebec if the same thing applied to it. I'm not wishing this on Quebec, by any stretch of the imagination, but I just put it in context that that's the kind of dollars we're talking about.

The federal government knows that's a major irritant with us. I think it's also a matter of principle as well as a matter of dollars.

Mr Wayne Lessard (Windsor-Walkerville): Thank you very much for your presentation and thank you as well for putting Windsor on your schedule of pre-budget forums. It's going to give an opportunity to my constituents to play a role in the budget-making process.

In your presentation, you referred to the work of the Fair Tax Commission. One of the recommendations they had was to place greater reliance on the use of environmental taxation policy in the protection of Ontario's lakes and rivers from toxic pollution and also to improve air quality and reduce waste. You didn't refer to that in your presentation. I wondered what your feelings were with respect to the use of taxation policy playing a greater role in environmental protection and sustainability.

Hon Mr Laughren: That's an interesting question. The Fair Tax Commission does put a fair amount of emphasis on that. I met yesterday afternoon with the Ontario Round Table on the Environment and Economy, and it is looking at the Fair Tax Commission's recommendations. They haven't just automatically endorsed them; they're looking at them with quite a critical eye and are now working on preparing a report, which they're going to send to me as well, on what they think should be done on environmental taxes, because there are some

concerns about environmental taxes. One which I share is on jobs. I've never felt that action on the environment costs jobs in the macro sense, but it can in the micro sense, and sometimes quite dramatically. That's one consideration to think about when we take action on environmental taxes.

Second is the whole principle of neutrality in environmental taxes. The environmental movement feels very strongly that it doesn't want to be seen as a cash cow for the treasury. They say, "You should be imposing environmental taxes in order to modify or change behaviour for the environmental good," so they're very anxious that we not simply increase it under the guise of an environmental tax when really it's just to get revenue. They're worried about that.

Third, they were concerned about earmarking, which surprised me. They said to be careful on earmarking, because it can start out being the right thing, but down the road, when it has modified behaviour, what do you then do with it? Do you just keep the money coming in, or do you move on to something else? I think they're approaching it in a very thoughtful way and are going to be coming back with some comments.

I'm quite open and favourable to the idea of using the tax system for environmental purposes, given all of those cautions, because I've seen examples when it doesn't have legitimacy. Quite frankly, that was part of the problem with the tire tax. In the minds of the public, it didn't have legitimacy; it was simply used to increase revenues. That's why we cancelled it. That was an example of why when we do environmental taxes, we have to keep all those things in mind and try—and I emphasize the word "try"—to build a consensus among the stakeholders, if that's the right term: environmentalists and the people who have jobs who are going to be affected and us keeping an eye on the revenues.

Those are the things that I think about when I sit down and talk and think about environmental taxes.

The Chair: Mr Laughren, on behalf of the committee, I'd like to thank you for making your presentation this morning and being so generous as to allow each caucus a couple of extra minutes.

Hon Mr Laughren: Thank you very much. I do look forward to the deliberations of the committee. I followed your work on the underground economy. You haven't completed your final report yet, I understand, but I do look forward to that, because that's something that's troubling to all of us. We didn't get into it today; there wasn't time. But we are concerned about that and are working with the federal government and Quebec as well. I really do want to see what you produce. Finally, if you decide to do something on the Fair Tax Commission, I'd be very anxious in seeing what you do.

The Chair: The committee is not adjourned yet. Staff will remain to answer questions of committee members, and I know there are two committee members who wanted to ask questions. Unfortunately, while the Finance minister was here, he did not have time.

Mrs Elinor Caplan (Oriole): Actually, I too wanted to follow along on the line of job creation. I understand

what the Treasurer is saying, and I look at his projections. Every day I meet people in my constituency office and I don't know what to tell them. There are 560,000 people in the province who are looking for work and another 150,000 who have stopped looking and are in despair. Your projections don't offer them any hope over the next little while. I'd point out to the Treasurer that the level of capital expenditure in the province has remained constant at around a \$3-billion base since the mid-1980s, so the pride you take in the number of jobs your government has created really is a historical pattern that has been established over numbers of years and doesn't offer much hope to those people who are looking to re-enter the workforce.

I simply ask, what do you say to the 560,000 people who want to work and don't find any hope offered to them by what you've had to say to the committee today?

Hon Mr Laughren: Keep in mind that we are predicting 124,000 jobs per year in the next number of years—not for 1994; 88,000 in 1994, but then increasing in subsequent years. While it would be nice to do a lot more, I think you'd be the first one to admit that the province can only do so much. We can't employ 500,000 more people in the province. I think you understand that.

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Mrs Caplan: There's also only one taxpayer.

Hon Mr Laughren: Exactly.

Mrs Caplan: I understand that you're looking to the federal government for more money, but it's going to the pocket of the same taxpayer also. Realistically, what do you say to those people who want to work, who are looking for work, and you're not creating the kind of climate where the private sector is coming to Ontario to invest? Nobody expects the government to do it all itself.

Hon Mr Laughren: A lot of the things we've done have been working with the private sector, encouraging the private sector, working in partnership with it. There's lots of evidence of this, lots of it, and I can put it up on the screen. That's delivered: A lot of the things we've done have leveraged a lot of private sector jobs.

The other thing, which I didn't spend a lot of time on today, is the importance of training and retraining and education, that puts people who are able to take advantage of that in a position that as the recovery occurs, they'll be better placed than they would otherwise be.

So I don't despair. I don't like those levels of unemployment. Nobody does. But for us to think that we can give you numbers that are wildly different from what everybody else is predicting—the federal government, private forecasters, our own folks—wouldn't be realistic. And as you say, simply taking tax dollars and pouring—

Mrs Caplan: Not the answer.

Hon Mr Laughren: That's not the answer either. There's a balance there. All I can indicate is that I think we're striking the best balance we can. Heaven knows, our deficit is high enough; it's higher than I'd like it to be. But to be even more draconian by slashing more jobs and more expenditures, particularly on the capital side, I don't think is the answer.

Mrs Caplan: I'd just point out to the Treasurer as he

leaves that your original deficit is double what you said was acceptable in your deficit reduction plan in 1991. Couple that with the number of people who want to work and are looking for jobs, and perhaps it was the mistakes made in that first budget of 1991 that have contributed to the aggravated situation today.

Hon Mr Laughren: Well—

Mrs Caplan: I understand, but there is an opportunity for you to say, “I know, we made some mistakes.”

Hon Mr Laughren: Your leader was the one who was out there saying we should have slashed expenditures this year by \$4 billion more than we did: \$4 billion. Do you know how many jobs that would be? That would be between 40,000 and 50,000 jobs at least, in our estimation. So when you come to me about us offering hope and not creating enough jobs, I would go back and talk to your caucus, Mr Caplan, about what it is they would have done if they had their way, or at least if your leader had had his way, and cut spending by \$4 billion more. There would have been at least 40,000 or 50,000 more people unemployed out there than there are today.

Mrs Caplan: Let, with respect, Treasurer, your tax increases, which do not result in any increased revenue, took 40,000 to 50,000 jobs out of the economy.

Hon Mr Laughren: That's simply not the case.

Mrs Caplan: I can debate it.

The Chair: Thank you again, Mr Laughren.

Hon Mr Laughren: Thank you very much.

Mr Cousens: You should come back for some more fun.

Mr David Turnbull (York Mills): I was hoping that maybe I could get the minister to answer this, but I will ask the officials. Being mindful of the fact that the federal government ran on a platform of getting rid of GST, its suggestion was that one of the possibilities would be a national sales tax. They have indicated that there will be no reduction in the amount of revenue they would gather, that they couldn't afford a reduction in revenue.

If you go to a national sales tax, if you were to take the money which has been distributed across the goods and services and move that into a sales tax, it would infer an increase in the tax which would be paid in retail premises. I am concerned that the implication of that might be to further stimulate the move for people to cross-border shop. I wonder if you could comment on that. I realize there are ongoing negotiations with the federal government.

Mr Kaufman: On the last point, there are no negotiations at the moment with the federal government on the GST. They have indicated in the throne speech, as you know, a desire to change the tax. We're really waiting on them to give us some indication of where they want to go. Perhaps at our finance ministers' meeting this week we'll get some indication.

What they've indicated is that they plan to move fairly quickly on the issue, hold parliamentary hearings over a four- to five-month period and then come up with some specific recommendations which we'll all have to

look at at that point in time. It's not at all clear what the federal plan is with respect to a national sales tax.

Mr Turnbull: If it were moved to a national sales tax, do you agree that would potentially have some dangerous side-effects for our retail sector?

Mr Kaufman: Our officials have certainly recognized, as we've looked at the growth of the underground economy, that the introduction of the GST seems to have had an impact on the growth of the underground economy. Obviously, if that's true, then one has to be quite cautious about what one does in terms of the introduction of a national sales tax. As I said before, we'll have to see what the federal government is proposing and the merits of that, and look at it at that point in time.

Mr Sutherland: I just wanted to come back to some of the issues Mr Harris raised, that we're spending \$40,000 a job in terms of job creation. When I look at the examples in your presentation, the amount spent at Ford and Chrysler, and work that out and work out the amounts for Mitel, Inglis and Dupont, both average around \$11,000.

The other factor is, when you're presenting these two examples, for example, the first one at Ford and Chrysler, that's only the direct jobs at the Ford and Chrysler assembly plants. That doesn't take into account any spinoff jobs created by auto parts suppliers.

Mr Kaufman: I'll ask Steve to answer the last part of your question, but on the first part, my understanding about the \$40,000 per job related directly to construction jobs and not to—

Mr Sutherland: But you can't just take the number of jobs, the amount spent, and do a simple division and say that's how much you're spending per job, without taking into account any of the suppliers, the other jobs created by the suppliers of the products for those homes etc.

Mrs Caplan: That's doesn't lower the cost of creating that job.

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Mr Steve Dorey: I'm Steve Dorey, the acting assistant deputy minister of the office of economic policy. I think what was done here was simply, what is the economic impact of the programs that government has in place primarily designed to create jobs? Obviously, if you're looking at capital construction you're creating more than jobs. You're creating schools and hospitals and roads and so on. The impact calculates out at about \$40,000 a job, but obviously you get much more out of that than simply the jobs. You get the goods and services and capital goods that are produced in the process. These calculations do take account of the second-round effects.

Mrs Caplan: Say that again? They do take account of the what?

Mr Dorey: They do take account of the secondary effects, the indirect effects, of the moneys.

The Chair: Surely committee members have many questions they'd like to ask the officials of the Finance ministry, and we have 10 minutes left this morning. We will of course be meeting this afternoon for an extended period. Mr Kwinter?

Mr Kwinter: Take a look at page 11 of the presentation I have; I don't know what slide number it was. One of my concerns is that every year at this time we have the treasury officials appear before this committee and we have officials from the private sector—the banks, the various financial institutions—to give us their projections of what the real gross domestic product is going to be and the nominal gross domestic product, and the government invariably is at the high side of the numbers. Of course, that is reflected in their budget, because if they expect certain amounts of money it makes their deficits less, but invariably, every year, they're off. Certainly in the last four years, every year, and even at this time, when you're about 12 weeks away from a budget, they're off. The Treasurer will come in and say the deficit is going to be \$9.5 billion as of now, but when the budget comes in it'll be \$10.6 billion or something, and all that happens in this 12-week period.

My question is, if you're going to be making projections that affect the way your budget looks, because your revenues are going to determine what your expenditure differential is going to be and all of these things, why would you not, if anything, be on the small-c conservative side and come up with numbers to say, "This is the worst-case scenario," and let us budget to that number so that in the best-case scenario you get a chance to reduce the debt and also the deficit, as opposed to the other way around?

Take a look at the projections. I referred this to the Treasurer. Every year, the projection was that the deficit is going to come down but every year the deficit has been going up. To give you an example, in 1991-92 the consolidated deficit was projected at \$9.7 billion, which was understated. In 1992-93 it was supposed to be \$8.9 billion, which was understated. In 1993-94 it was supposed to be \$8.4 billion, which was understated. In 1994-95, \$7.8 billion. In effect, every year it showed it coming down. The reality is that every year it goes up.

The thing that disturbs me the most is that in 1991 we had demonstrations outside this building because people were concerned about the projected \$9.6-billion or \$9.7-billion deficit, and now it's accepted as that norm: "Hey, we're doing great; we've kept our deficit at \$10 billion. I mean, what do you want? That's pretty good."

Surely, if that is going to be built into the system, that for the foreseeable future the normal deficit is going to be \$10 billion and that is the target, "Let's make sure we keep it under that number because then it's acceptable," then I think we have a problem.

Mr Kaufman: I have a number of comments on that. First of all, in defence of forecasters, and our forecasters in particular, everybody in the world has been wrong about the way this global economy would perform over the last period of time. When you go back to 1990-91 and look at the way the economic situation in the country was being talked about at that point in time, everyone expected a relatively mild recession and a relatively short recession. That has not occurred that way. We've had a profound change in the economy, particularly a profound change in Ontario. The combination of high interest, the high dollar and the rest of the story, which you know

about, has created a very unique situation in this province, and it has made forecasting in general much more difficult.

I would also add that, from Ontario's position, we're highly dependent for a large part of our revenue forecast, with respect to the personal income tax, on the federal government. We have consistently and dramatically been surprised by the numbers we receive from the federal government. This began in 1991. I remember the first occasion when my head of fiscal planning walked in and told me of the first billion-dollar loss on PIT. I couldn't imagine a billion-dollar loss. Within three weeks, it was \$2 billion. We've had a great deal of difficulty and the federal government has had a great deal of difficulty in trying to estimate that.

The fact is that the budget is on a downward trajectory. I remind you that the budget this year is forecasting a deficit of about \$9.5 billion. That is substantially down from last year. I think the Treasurer has indicated that no one is happy about a deficit that sits at \$10 billion. The commitment of the government is in fact to carry out measures that will reduce the trajectory of that deficit downward as quickly as is reasonably possible. That's the policy direction, I think this year in particular as things have stabilized, except for the PIT side. I think everyone again has misjudged the recovery a bit this year: It's been lower this year than everyone has expected. Most of the impact, again, has been on the personal income tax in terms of our problem.

I would say in relation to next year, and we've tried to be cautious, if you look on page 11, we quite consistently across the entire piece are below private sector forecasts at this point in time. We have tried to be very cautious and not overestimate what we think we're going to get by way of economic recovery and revenues. But I want to emphasize that it's very, very tough. I think we're into a more stable period now, and we should expect better forecasts.

Mrs Caplan: Supplementary to that—

The Chair: I'd just say that we have a couple minutes. I'm going to give you your supplementary.

Mrs Caplan: We can do it this afternoon if you'd like. We'll have time this afternoon.

The Chair: We have a couple of minutes left, and Mr Cousens has a question too. I want to remind people that the ministry official will be here at 2 pm for one hour if there are any further questions.

Mrs Caplan: The only thing—this is really supplementary—is to verify a number. You keep saying \$9.5 billion, as on page 17. I'm adding it up, and I think it's fair to include the \$800 million that's off-book. What you're really reporting, as of today, is \$10.4 billion as a deficit number for this year if you add in all those things that have traditionally been included in the budget. Is that not correct?

Mr Kaufman: I don't think we've characterized it that way, but if you add the two numbers together, that's the math.

Mrs Caplan: The math is that \$10.4 billion is the number for the reported deficit if you include all the

things which have traditionally been included in deficit requirements of the province over the last few years.

Mr Kaufman: If you treat the accounting the traditional way it's been done, on a consolidated basis—as you know, our view is that we've restructured a part of the capital debt; it shows up as debt—we certainly take the view that it is not part of the current account deficit, and that's the reason for the distinction between a budgetary structure and a non-budgetary structure. It's like your house. As you all know, you make mortgage payments on your house for a period of time. Those costs are calculated on a current account basis. We've calculated the cost of that borrowing on a current account basis, and we're paying off the debt over time. It does end up on the total debt of the province, however.

Mrs Caplan: We'll pursue it this afternoon.

The Chair: Mr Sutherland has a procedural question.

Mr Sutherland: In my view, we were a little remiss in one group we didn't invite for our pre-budget hearings. We asked some others to comment on the Fair Tax Commission, but we didn't ask anybody from the Fair Tax Commission to come and make a presentation or respond to questions about some of its recommendations. I'm just asking whether there would be a willingness to have a representative from the Fair Tax Commission come. I know our schedule is very tight. Looking at what we have before us, it would probably have to be later in the day, but I'm willing to sit one day to 6 o'clock to accommodate, if the other parties were willing to do so.

Mr Cousens: We're in agreement. Good suggestion.

Mrs Caplan: No problem.

The Chair: We'll ask the clerk to see what can be done about that.

I thank the ministry officials for appearing here this morning, and look forward to seeing you this afternoon.

The committee recessed from 1201 to 1407.

The Chair: We will continue with opportunities for members to question officials of the Ministry of Finance.

Before you is information on two items: one is the definition of "enterprise crime," something that was requested by Mr Kwinter; and, second, some questions that were forwarded to the Finance minister from Mr Phillips. There is a package there of questions and responses from the Finance minister to Mr Phillips. We all have copies of those now.

Because we have a presentation at 3 o'clock, we have approximately 53 minutes. I guess it would be fair to divide the time evenly.

Mr Phillips: The current fiscal outlook: I realize that you can't, I gather, give us the level of detail we had last year around April, but it makes our work more difficult. Maybe I can just start by trying to get some explanation of the revenue thing. We talked a little bit this morning about it.

As I look at the numbers we had in the budget last year, you were expecting revenues this fiscal year, 1994-95, of \$46.5 billion. I gather that's now down to \$44.9 billion. The next year you're expecting revenues of \$49.4 billion. The reason I raise these is because I think for the

committee's use we have to have some idea of where we're going over the next three years or so. I don't think we can deal with just one year. Are we likely facing similar revenue challenges in 1995-96 and 1996-97?

Mr Dorey: The \$1.6-billion shortfall for 1994-95 includes some quite substantial onetime repayments. It's repayment with respect to the 1992 tax year to the federal government of something in the order of \$400 million, which we hadn't expected at the time of last year's budget. There's also a \$100 million or so repayment of EPF population adjustment that we hadn't anticipated. Our expectation is that for 1995-96 the shortfall relative to our budget forecast will be substantially smaller than the \$1.6 billion for 1994-95. So it's not on an upward trend.

Mr Phillips: When do you think we can get the level of detail that we had last year? Is it before our committee's work is done?

Mr Kaufman: On the revenue side?

Mr Phillips: Yes.

Mr Kaufman: There are a couple of factors on the revenue side that we need to wait for until we can give you a fairly complete picture. One, obviously, is the federal budget. If some of the signals coming out of Ottawa are any indication, it could have a fairly dramatic impact on our budget. I think we can probably give you a fairly good revenue analysis now. I think the numbers we've given here and any further detail you want in support of those numbers we could certainly give you.

Mr Phillips: Good. If I go back to the April 5 document of last year, I would find it very useful to get the revenue projections by tax source and it would be useful for me to get it for 1994-95, 1995-96 and 1996-97, which is what we were provided last year. Sale of assets would be helpful.

I haven't had a chance to go over all your responses to my questions, but breaking the tax revenue down, as you did, breaking the other sources of revenue and then, as you say, you'll know presumably in the next couple of weeks the federal numbers. For me, it would be very helpful on a three-year basis. It would be important, before the committee concludes its work, to get that as well.

Presenting the budget in the way the Provincial Auditor has recommended, I have a note from the ministry indicating it is the intention to report both this year's numbers, 1993-94, and 1994-95 on the basis that the Provincial Auditor has recommended. Can we have assurances that is the intent?

Mr Kaufman: I think you'll appreciate that in meeting the objectives of a new system the amount of work involved is enormous, quite frankly, and quite costly. Our critical path is to be able to meet that target of next September, and I think we're on target for meeting that objective. There's a lot of work involved in this change from the current cash accounting system to an accrual system. We're optimistic we can meet that target.

Mr Phillips: Did I mishear the target? The letter I have says, "As you know, the ministry has indicated the Ministry of Finance will work towards implementing the

public sector accounting auditing board recommendations in the public accounts for the year ended March 31, 1994." You will do that in the year ending March 31, 1994?

Mr Kaufman: Yes, and the target date is September for having that work done and completed and reported—September 1994.

Mr Phillips: Am I missing something?

Mr Kaufman: I don't think so.

Mr Phillips: I had assumed what this meant was that the budget would be presented in accordance with the public sector accounting and auditing board recommendations. Am I hearing something different?

Mr Kaufman: I think the Treasurer has already indicated we're not planning for this forthcoming budget, if that's your question, to present the budget along the new accounting principles. We're not going to be in a position by that point in time to have had the work done, number one, and, number two, the plan at this juncture, in order to ensure consistency with last year's budget, is to present it in a similar way. I think in terms of the kinds of issues you've been raising, most of the questions that you've been flagging, information has been contained in the budgets.

Mr Phillips: I just serve notice that I am not going to find that acceptable. Maybe you have to read these letters very, very carefully, but I had assumed the letter meant that you were planning to accommodate the auditor's recommendations. I never for a moment thought it would be September before we saw that. I think the auditor has signalled that the books do not represent to the public the state of the finances of the province, and if you prepare a budget on the basis of going against those recommendations, I think we have a problem.

Mr Kaufman: I think to be fair, Mr Phillips, we had a previous Provincial Auditor who was absolutely insistent that the accounts of the province be maintained on a modified cash basis. The new Provincial Auditor has indicated he would like the books of the province presented on a different basis. We're accommodating that request. It is an enormous job to transform the books of the province to that new system. I'm not aware that the Provincial Auditor has any other expectations than the plan we're on now, which is to present the next public accounts in the form that he would like them to be presented in. That's where I think we are on this issue.

Mr Phillips: I don't want to be overly contentious—I'm serious—but I just think the books of the province are getting so out of whack with reality. I'm sorry to be as blunt as that. I had accepted the letter I got back as saying: "They're moving to it. We will have the books this year and next year on the basis that he's recommended."

As far as I'm concerned, it sounds to me like the budget will be presented on a basis the auditor said in his annual report he does not find acceptable, and he doesn't feel that represents the finances of the province to the people of the province. I think we have really a fundamental problem.

I'm sorry to go on about this, but we're talking about

billions of dollars of expenditures that aren't going to be reported the way the Provincial Auditor has recommended. I serve notice that this is going to be a problem for us. The auditor could not have been more clear on it.

I have concerns as well around some of the sales of assets. I gather, if I read your letter correctly here, that you are planning to continue with \$600 million or \$700 million a year of sale leasebacks. You're going to sell existing GO trains, then lease them back. I gather we're going to be selling buildings like this and leasing them back. I gather we're going to be selling up to \$500 million worth of jails and courthouses and then leasing them back.

Mr Kaufman: I don't want to speak specifically on jails and courthouses, but certainly the plan is to transfer realty assets to the new realty corporation. We've been moving to transfer land assets and this year building assets, and that process is to continue. I don't have the details specifically of what's being transferred, so I can't answer the question of whether over the next couple of years it involves courthouses or not, but yes, that's the plan we have in place.

Mr Phillips: I just go by the letters I get from you people which say you are planning to sell \$500 million worth of jails and courthouses to this Ontario Realty Corp and then lease them back.

Mr Kaufman: I'll confirm for you the types of assets that are being sold to the corporation over the next couple of years, but I can't give you an answer today whether it's \$500 million worth of courts. It doesn't ring right to me that it's \$500 million.

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Mr Phillips: I'll find the letter here fairly quickly, I think, because it's from the Ministry of Finance. I have so many letters, but I'm sure your own staff remember sending it to us. It indicated that over the next two years you plan to sell \$500 million worth of jails, courthouses and correction centres to the realty corporation and then lease them back.

Mr Phillips: This letter is August 16: "Over the next two fiscal years, about another \$500 million of Management Board Secretariat accommodations are intended to be acquired" by the realty corporation and then leased back. These are "correctional facilities, courthouses and detention centres." Is that still the intent?

Mr Kaufman: The number of \$500 million over the next couple of years is correct. The actual detail of that is being reviewed and I'll undertake to get back to you with more detail. Certainly it's my sense and understanding that it's not simply jails and courthouses, but I do want to get back to you on it. But the number of \$500 million is roughly correct over two years.

Mr Phillips: I just go by what you tell me. Again, the reason I raise this is, to me that kind of thing is like, "We've got a problem with paying for the groceries so let's go and get somebody to lend us some money against our furniture and then we'll lease it back." We are taking in revenue that in my opinion is not real revenue, and the auditor said the same thing. The auditor said that's not real revenue.

Then we're taking on a brand-new annual cost of leasing them back again. In my opinion, we run the risk of distorting our books, and again, that's what the auditor says. So I think I'll have some real questions around is that a legitimate transaction to sell our jails and then lease them back. How do you respond to the auditor's comments that this is not a legitimate way of keeping the books?

Mr Kaufman: I think you'll appreciate that currently our assets have been valued at zero. One of the major purposes of establishing the realty corporation is in fact to put some value on assets which clearly have value, to put in place a better management of our realty assets and to introduce some effective pricing within the Ontario public service so that we're in fact getting more efficient use of our assets.

Our expectations are that by virtue of introducing a user price within our operations, we will save significant moneys and achieve greater efficiencies in the use of our assets. They'll be better managed. So there are a number of purposes that we're trying to achieve through the construction of the realty corporation. Our view generally is that when we're refinancing assets like GO Transit, it's a refinancing of existing assets. It's no different than taking equity out of your house, in some sense. Clearly, you add to the debt. No one's arguing about adding to the debt, but on a current account basis, you've got some carrying charges.

Mr Phillips: Will you show that as debt then?

Mr Kaufman: Certainly. Overall, if we're borrowing additionally, then clearly we'll have additional provincial debt, but on a current account basis, the point we've been trying to make in terms of capital assets is that they ought to be accounted for in a different way so that the costs of those assets are more effectively aligned to the stream of benefits that arises from them. That's basically why we're in the process of restructuring the way in which we do capital.

I think in public finance circles, you are probably well aware that this has been a long-standing issue about how we deal with capital. Most public finance experts have argued quite strongly that historically the result of treating capital on a current account basis is that we've underspent in public sector capital and we keep on trading off capital spending against operating spending. So part of the policy shift here is in fact to meet some of those public policy objectives.

Mr Phillips: I don't want to dominate if my colleagues have some questions.

The Chair: There's about two minutes left.

Mr Phillips: I've got lots of questions.

Mr Kaufman: We're quite prepared to sit down with you and go over all the questions and provide you with answers. From our point of view, we don't have to do all that today.

Mr Phillips: Good. Just working my way down here, some of these revenue numbers were on the five-year licences. I gather from your response today that you do not plan to take into revenue the five-year licence revenue; you'll only take into revenue the one year. The

purpose of this question just is that we've moved to five-year licences, and opposition, who has a cynical view, says it's designed to take five years' revenue in the first three years. You will not show that as revenue, though.

Mr Kaufman: On our current cash accounting it would show as revenue. On an accrual basis, I'm told it would show on a three-year basis. So in our current system it would be treated as revenue, yes.

Mr Phillips: Boy, you've got to really understand this jargon. I thought that you said the revenues will be shown the year earned, ie, on an accrual basis.

Mr Kaufman: Sorry. My point was that under our current accounting system, yes, it does show up as revenue in the year we get it. Under an accrual system, I'm told by staff that it would show up in each of the years for which the period is covered. So if it's a three-year licence, part of it would show up in year 1, year 2, year 3. It depends, Mr Phillips, on at what point we are on which accounting system.

Mr Phillips: I just want to be clear. On any of these things where we move to three-year licence or a five-year licence, you will only show in revenue the revenue for the year that it was earned. In other words, if I buy a licence for five years, you'll only show in 1994-95 one year of that five-year revenue.

Mr Gregg Smyth: I'm the assistant controller in the office of the controller, Ministry of Finance. As Jay has said, when we prepare the public accounts on an accrual basis, just as we look at accounts payable etc, we look at the revenues and see which revenues pertain to the particular period—

Mr Phillips: Let me be very specific. This year's budget, when the budget comes out, will you show the revenue for the licences for the one year they're earned or will you show all revenue for licences that were sold?

Mr Kaufman: This year's budget will be based on a cash accounting—that was my point earlier.

Mr Phillips: I understand that, but the answer you gave me here is that the revenues will be shown in the year earned in the public accounts. I assume from the answer you gave me that you were, in this year's budget, going to show only the revenue for the year it was earned. But I gather the answer is you're going to show the full revenue in this year's budget.

Mr Kaufman: In this year's budget, because we've used a cash accounting for purposes of presenting this year's budget, we'll show the revenues in on a current basis, yes.

Mr Phillips: Let me just say that on the basis of this, I'm going to get my microscope out, because I think that the written answers I have here, you've got to really understand the language you use to understand what you're saying. I completely interpreted it differently. I thought you were doing what I thought you should do.

Mr Kaufman: Let me try and be very clear. What I said at the outset was that we are moving, in terms of the public accounts for the forthcoming year, to report those on an accrual basis and bring them in line with what the Provincial Auditor has asked. We're targeted to complete that exercise by September so we can produce the public

accounts on that basis.

For the budget this year, we intend to present it on the current accounting basis, which is a modified cash basis of accounting. In terms of the kinds of information that we've provided in the past, we will be very forthcoming in presenting what we're doing through our capital corporations. The off-budget capital financing will be all very clear in the budget. There won't be any mystery about it. But that's the plan at this juncture.

The Chair: Thank you. We're going to move on now.

Mr Cousens: I'm concerned with and my questions will centre mainly on the social contract. On page 20 you indicate that the social contract is working and you point to \$2 billion in savings achieved. Do you have any costs, how much it has cost the government to implement the social contract? I guess there are hard costs and soft costs. I think the loss of morale and other things that have gone on are hard to quantify and impossible to quantify, but how much has it cost? Has there been any real accounting of that?

Mr Kaufman: Peter Warrian can answer you. I think the only accounting we've done that we've reported publicly is the direct negotiating costs that were accrued during the period of negotiations. We haven't done any additional accounting of the costs of the social contract. It's a normal part of the business of government's activities.

Mr Cousens: You say a normal part of business activities. Then there's the other whole factor of how much time people have been spending on it. Has there been any kind of adding-up of that?

Dr Peter Warrian: The direct costs of the negotiations were about \$900,000. That information was previously—

Mr Cousens: That's the only dollar that you have on the cost of the social contract? There's no other costs associated? Certainly I think there are many other aspects too, what the social contract has done and is doing to the province.

Dr Warrian: You're correct in the sense that there would be implementation costs that the government as an employer or other employers or union groups might bear. I'm not speaking to that. I understand that those costs are there. We don't have any figures on that. Those are with the respective employers or unions. But our direct cost in the social contract was approximately \$900,000.

Mr Cousens: When you say there are very few layoffs, could you give us a sense of what the layoffs are in each of the sectors, how many people in each sector were laid off?

Dr Warrian: Yes. We have a figure that we've indicated, which is 82. Of those 82—I'm trying to find the rest of them—some 38 are with GO Transit.

Mr Cousens: This is across the province?

Dr Warrian: Yes, across the province, and this is against a base of about 900,000 people.

Mr Cousens: So 82 people laid off?

Dr Warrian: Out of 900,000. I have a sector breakdown I'm trying to find. As I said, of the 82, approx-

imately half, that is, 38 of them, were from GO Transit. My recollection is that there are 16 in the hospitals. Sorry; I can't find it in my notes for the moment.

Mr Cousens: If 82 is the number that you're delivering, I have to tell you that I'm going to invite all the sectors to share with us the number of people who have been laid off, let go, since the social contract was brought in. Municipalities across the province in many, many cases—82 doesn't begin to touch on the number of people affected because of the social contract.

Dr Warrian: Mr Cousens, let me be precise. When I give you the figures, we have widely circulated the entitlements and the interim guidelines for the job security fund. We are dependent on employers or unions coming forward to us to identify the people. Now, there frankly has been a temptation to blame everything on the social contract or mix the social contract and the ECP. But for those who have been directly identified under the social contract, the figures are as follows. There are 41 in the ABCs—that's basically 38 in GO Transit plus three others—16 in health; six in social services; two in the school boards; and people in the municipalities. That is the information we had as of last week.

Mr Cousens: I suppose, in your own mind, if through the expenditure control plan which also parallels activity of the social contract, someone were to have been let go because of the expenditure control plan, are you saying then, legalistically, that is not included in the people who are affected by the social contract?

Dr Warrian: Yes, that is not included.

Mr Cousens: Therefore, municipalities have had to cut back. They would say, "Well, this is the expenditure control plan," and therefore they have let certain people go. Therefore, those numbers would not appear in your numbers for the social contract.

Dr Warrian: Yes, it is a little more precise than that. If somebody has gotten—well, the language people use, they've gotten a certain social contract hit, they've had a certain target and say that's \$25,000 in some agency, they may have had another hit or another fiscal target driven by ECP impact them as well. I'm not saying there aren't other people who have been impacted in other ways, but when the question is put, "How many social contract layoffs are there?" those are the numbers.

Mr Cousens: How many would have been affected through loss of jobs through the expenditure control plan? Is there any sense of what those numbers would be?

Mr Kaufman: When we developed the expenditure control plan and we had analysed its impact on the broader public sector, our estimate was that the potential jobs impact could be handled by attrition. If I look at the latest numbers—you mentioned the municipalities—in fact in 1993 the latest information we have is that employment in the municipal sector has grown 10,000 in Ontario over 1992. There appear to be no overall net reductions in jobs as a result of the expenditure control plan in the province, or at least in respect to the municipalities. If I look at health and welfare services, they've gone up about 21,000 in overall jobs in 1993 over 1992.

I think our basic assessment was that there would not

be a major impact on the jobs side from expenditure control. In fact, our assessment was that the significant jobs impact would be on the Ontario public service directly. I think the jobs impact that we expected overall was about 3,000 to 4,000 and our hope was that we would be able to deal with that pretty much through redeployment, retraining. I don't have the exact numbers, we can get these for you, but I don't believe in terms of layoffs of full-time staff that we have more than a handful of layoffs of full-time staff in the OPS, and that was the area where we felt the most significant impact was going to occur.

Interjection.

Mr Kaufman: I've just been told that there's been one full-time person who's ended up laid off in the OPS. Is that right, Phyllis, as a result of the ECP? And nobody laid off as a result of the social contract in the OPS. Phyllis Clark is from the Management Board Secretariat.

Mr Cousens: I'm surprised and, trusting as we are as we share these bits of information, I find it incredible because the sense I have is that through hospitals, through other agencies within the government, within the sectors, there are far more people impacted. Maybe another question is: How many people through these sectors have been given early retirement? That might be a different way of your assessing the number of people who have attrited.

Mr Kaufman: We don't have that number. We would certainly be able to get that number for you for the OPS, but I couldn't give you that number for the broader public sector. There will be a substantial number of people in the OPS who've opted for early retirement, but we should be clear about that; part of the plan was in fact to encourage early retirement.

Mr Cousens: I accept that, but part of my problem is that the government has refused to allow myself or others to see the agreements and the contracts. It's been a closed book, as far as I'm concerned. I have questions on the order paper in which I have asked to gain access to see the agreements so that I can begin to understand that and I've been refused access to the social contract agreements. It's in the order paper. You can talk to the minister. I have not been able to get in and see it.

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Mr Kaufman: These are documents in the public domain, as far as I'm aware.

Mr Cousens: You look at the order papers; there are questions that I have asked. I've asked the minister to gain access and I have not been able to do so.

Mr Kaufman: We'll follow up and look at the request and see if we can respond positively to it.

Mr Cousens: When you say there are very few layoffs, I challenge that. I don't have numbers either, but your numbers to me are surprisingly low. I don't want to give artificial numbers; I hope I'm not getting them here.

Mr Kaufman: All I'm quoting from here is the Statscan report which provides details on employment. The one area where we've had a dramatic decrease in the number of jobs has been in provincial administration, which means the OPS, and we know we've had a dra-

matic decrease there. But as I say, there have been virtually no layoffs.

In the area of municipal administration, it's grown by 10,000 jobs. In the area of health and welfare, it's grown by 21,000 jobs. As I recall the numbers, when we looked at the impact of the ECP, I believe we estimated about 11,000 jobs could be impacted. The attrition rate in the broader public sector, we estimated, was in the order of 17,000.

What may occur—obviously, these are macro numbers—is an individual situation. There may in fact be a place where there are individual layoffs in one local area but, overall, our feeling was that the system could manage this degree of expenditure reduction.

The reason we went to the social contract at the end of the day, of course, was to protect jobs and it was our judgement that ECP going much beyond that would have a major impact on jobs.

Mr Cousens: I just have a great concern that the morale within the public service in Ontario has been negatively impacted, because so many people now have a sense of insecurity about their being able to keep their job because of what they've seen happening. When you give these numbers, the sense I have is different. My colleague has some other questions.

Mr Gary Carr (Oakville South): My question would be for somebody on the policy taxation issue. As you know, last year in the finance committee we spent a great deal of time hearing from economists who said the worse thing we could do last year was increase taxes. We had the biggest tax increase in the history of the province last year. Our minority report called for no new taxes at that point last year. We weren't listened to. The economists weren't listened to.

As you know, the \$2 billion killed consumer confidence. Consumer confidence is very fragile now. The \$2 billion, economists have projected, could lose as many as 50,000 jobs as a result of it and it was probably the worst possible thing that could be done. We now have heard the prime minister, Mr Chrétien, saying they will not be increasing taxes.

I would like to ask the question to the senior tax person who has Floyd's ear. The question I would like to ask him or her is, what does that person recommend the Treasurer do regarding taxation? Should he increase any taxes, and what will the recommendation be? I know the person who made the recommendation last year may have said not to increase at the end of the day and I recognize the Premier and the Minister of Finance are responsible, but I want to hear from the top person, the taxation person whom Floyd listens to, what is their recommendation with regard to taxation?

Mr Kaufman: I don't think that's—if I understand what you're asking—a reasonable question to ask. I think the government was facing a major problem in its deficit. As the minister has indicated, it felt it had to tackle that problem—

Mr Carr: I'm talking about this year. What is their recommendation for this year? Forget the past; the \$2 billion, that's done. What does he or she recommend this

year? We are the finance committee that has to write a report that supposedly you look at. What is your recommendation to us on taxation?

Mr Kaufman: I think the Treasurer has said to you—this is a matter of government policy, not a matter of what officials say—he doesn't expect to see major new net tax increases in this forthcoming budget. That's what is on the public record. I don't think we're in a position to say anything more than that.

Mr Carr: Okay, so it's net, but we could see some shifting.

With regard to job creation, as you know, the Jobs Ontario Training program, you throw out numbers of jobs that have been created. The controls in place on that are probably the worst controls. If you were in the private sector you'd be laughed at. The figures that we get, brokers—we've got three brokers charged, Mr Wiseman, with regard to this. If it was you who laughed—sorry, Kimble. We've got a situation right now where you're throwing out numbers that are coming from the brokers. There are absolutely no controls in place for you to check that.

My question to you is this: With the job numbers that are being thrown out, whatever they are, can you tell me that you believe they are accurate, and let's be specific with the Jobs Ontario Training? Can you sit here and tell us the job numbers that your government is giving out are true and accurate?

The Chair: Can I just say something? First of all, I just want to let Mr Carr know he's only got a couple of minutes. The other thing I'd like Mr Carr to remember is these people are here to help answer questions you might have. Although you weren't exactly badgering, you were getting close, I must say.

Mr Carr: I don't mean to be. I guess my problem is the frustration. I'd like to get clear answers from you, and if my tone appears sometimes, it isn't, because those who work on the committee realize that, but I do want to get some definite answers and so I'll go with that answer. Can you sit here and tell us today that those job numbers are accurate with regard to the Jobs Ontario Training program?

Mr Kaufman: With Jobs Ontario Training, we've got these numbers from the program, and as far as I'm aware, they're fully accurate.

Mr Carr: But there are no controls. You have no way of checking them.

Mr Sutherland: Oh come on.

Mr Carr: What's this?

Mr Kaufman: The numbers that we've got are numbers which are number of training placements, and I think the number is 23,000, and there are 10,000 further training spots which are being filled. That's the information we have, and I can't speak more than that. We count on line ministries to have accurate information.

Mr Carr: Okay, fine. I'll accept that. Very quickly, one last question. In the expenditure control plan, you had in the Ministry of Education and Training, ministry integration, reorganization, streamlining and cash con-

straint management, a \$47-million change. You know the program. Are those figures accurate in each of the ministries? When you talk about integration, reorganization, streamlining, cash constraint, what did that mean? How did you get the savings that you say you got in those programs?

Mr Kaufman: As I recall, and I'll ask staff to help me here if I'm off base, the way in which we calculated those numbers had to do with the reduction in the salary and wages envelope associated with central administrative functions and non-salary dollars. It looked at the total saving that was got through the basic downsizing and integration of central administrative organizations. It didn't include any saving associated with any program rationalization that's occurred since the integration. It's pretty much exclusively dealing with central administrative operations.

Mr Sutherland: I want one more question on the social contract. The numbers you were presenting don't take into account the fact that some people may receive a layoff notice but because of collective agreement responsibilities they may receive that notice, say, six to nine months in advance, and in the meantime they may get redeployed in that six- to nine-month period. Those people wouldn't be included in these numbers then.

Dr Warrian: To speak bluntly, the figures I gave are the ones who actually hit the street. There is all kinds of churning in the system. If I may, I'll try and elaborate a little bit more for Mr Cousens, that those are the actual layoffs. Those layoff notices may be received by a number of people, but the question is how many go out the door at the other end. The answer to that is our best information and the applications that we've received are with respect to 82 employees who have actually gone out the door and hit the street related to social contract targets.

There's an awful lot of churning in the system. Somebody may get a notice but there's a bumping procedure or halfway through that somebody else retired and they go over to that job, all sorts of churning. So the aspect Mr Cousens refers to, that anxiety about potential job loss, is real and it is widespread. The actual numbers are well short of that, but I'm not denying there could be layoffs for other reasons.

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The final comment I would make is this is a huge system. Even in the midst of the depths of the recession, the turnover rate has been 1.5%. That means—family situations change, people die, whatever, they move to other parts of the country—around 12,000 to 14,000 people in the broader public sector change their jobs each year. So there's lots of churning going on in the system.

We are doing a survey of employers to try and get the actual data. My best insight into this is simply as follows: Number one, the actual direct layoffs, ie, people out the door, is very small, related to the social contract at least. That doesn't mean nothing is going on. There's lots of churning through notice of layoff but then there's bumping around. They don't actually go out the door. There have been, particularly with respect to part-time employees, significant reductions in hours and some of

them are on irregular shifts, they're casuals. There's lots of that going on.

Finally, there is a significant amount of attrition where people retire. You know, Joe retired and they decided not to replace Joe or they don't replace Joe for eight months and therefore they make up their social contract target. Somebody else may go into that job later or something; lots of churning around, so lots of non-replacement of retirees, lots of reduction in hours, particularly with respect to part-time or casual employees.

However, in terms of people going out the door, ie, terminations, there is a relatively small amount of that. We are surveying to get the actual data. That's the most accurate picture I can give you.

Mr Sutherland: I had one other question related to the forecasts that were put forward here for some of the G-7 nations on page 13 of the presentation, private forecasts. For the United States, just yesterday I thought I heard about a 4% growth and some reports indicating higher. The numbers here are for a three-year average—

Mr Dorey: Yes. Actually, it's a four-year average. It's the calendar years 1994 through 1997 and it's the outlook over those four years. Certainly the kinds of numbers people are talking about for the final quarter of 1993 range up to 5% and above. It was a very strong quarter. But that's probably what you saw. For the year as a whole it'll be around 2.8% for 1993 and the current forecast for 1994, the consensus view is 3% for the US.

Mr Wiseman: I don't know if you have this at your fingertips, but a good indicator of what the economy is doing is the number of new orders for machine-making tools. Do you have any idea of what is happening in that area, whether companies are buying machinery to make tools? In other words, we're looking at the tool and die sector and the import sector in terms of orders.

Mr Dorey: It's a good question. Those numbers are published regularly in the US. We don't publish them, break that particular aggregate out as cleanly, but certainly imports of machinery and equipment have been very strong and investment in machinery and equipment have been very strong this year. Certainly that's been, along with exports, the leading sector of the economy. But in terms of what's happening to orders for machine equipment, I don't have that at hand.

Mr Jim Wiseman (Durham West): Do we know what's happening with the housing starts? I didn't see that in the bundle.

Mr Dorey: Housing was the sector that probably most underperformed our expectations this year. We had expected in the budget 57,000 housing starts; it looks like we will have 42,000 at the end of the year. That's a huge shortfall. Housing starts have picked up somewhat towards the end of the year and resale activity picked up a bit towards the end of the year. But certainly 1993 was well below our expectations and we've also lowered our forecast for 1994 for the housing sector.

Mr Wiseman: One of the figures that I like to see, and I don't see it very often because everybody likes to use statistics, is the total employment, the number of people who are working in full- and part-time jobs. I

didn't see that in the bundle. I have to confess I couldn't make it this morning, I was on another committee, but what's happening with the total employment in the province of Ontario?

Mr Dorey: Employment this year was up 79,000 to a total employment for the year of—or at least the last month, December, was 4,810,000.

Mr Wiseman: Is that surpassing or matching or below what you anticipated for the growth?

Mr Dorey: Employment growth this year was substantially below what we had expected. We had expected growth of 2.2% and in fact got 1.7%. So we're about a half per cent under, which would translate to about 25,000 jobs below what we had expected.

Mr Wiseman: What does that do to your revenue projections and what does that cause you to think about doing in terms of projecting for the coming year?

Mr Dorey: There are two effects of the employment numbers for 1993. Employment was, as I said, about 0.5% below what we expected. There was also substantially more part-time employment than we had expected. The mix between part-time and full-time tends to improve; you get more full-time as you move into a recovery. That didn't happen to the degree it normally does this year, although, again, in the latter part of the year, the final quarter, full-time employment was substantially higher.

Mr Wiseman: In terms of the Ontario public sector, what was the total number of jobs in the Ontario public sector last year and what are the totals this year?

Mr Dorey: For the broader public sector, we don't have those precise figures, do we?

Mr Kaufman: Roughly 900,000 in the broader public sector.

Mr Wiseman: Well, here's where we get into the problem, if we don't know how many.

Mr Dorey: Is it up or down?

Mr Wiseman: I know we haven't had to lay off the number of people, but I know the positions have been eliminated?

Mr Dorey: What we know is that provincial administration was down 10,000 on average between 1992 and 1993, down from 88,000 to 78,000. On the other hand, health and welfare was up 21,000, education was up 4,000 and the municipalities were up 10,000. The provincial administration sector is shrinking, but other parts of the public sector in the province are at least stable.

Mr Wiseman: Or growing.

Mr Dorey: Or growing.

Mr Wiseman: That's an interesting point.

Dr Warriar: There's a regular survey, but we wouldn't know till the end of the year.

Mr Wiseman: Could we have those numbers?

Mr Dorey: Sure.

Mr Wiseman: This is an important number to know in terms of what's happening in growth and where the employment is.

Just one last question and that is on manufacturing,

because manufacturing is an important sector. Do we know what's happening in the manufacturing sector from the point of view of total number of people employed on a year-over-year basis? Can we see what's happening there from last year to this year?

Mr Dorey: Yes. Total employment this year, 1993, was actually down 3,000 from 1992 overall on about 900,000 employees. It's a very small decline, but it was a decline. The pattern was a reasonably strong performance in the early part of the year. It dipped quite sharply in the summer and came back reasonably strong later in the year. So for an annual average, employment is down 3,000.

Mr Wiseman: Is this slippage that's taking place happening in one sector? Is it happening across? Can we pinpoint any area?

Mr Dorey: It's pretty widespread across the manufacturing sector. There's not one of the detailed sectors that has a decline of more than 10,000 jobs. Electrical products were down 8,000, which is the biggest, but I don't know that you can read a whole lot into that.

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Mrs Irene Mathysen (Middlesex): Yet productivity is up, isn't it?

Mr Dorey: Productivity is up dramatically, yes.

Mrs Mathysen: So this is the jobless recovery that we hear about that isn't particularly positive in terms of human beings.

Mr Dorey: Certainly, output has expanded quite sharply and employment hasn't risen. If output continues to rise substantially, then presumably employment will follow it, but there are big productivity gains, a lot fewer workers producing more output, yes.

Mr Wiseman: Could you supply us with those kinds of numbers in terms of the Ontario domestic product and how much it's grown and the sectors where it's growing? I think we need to know these kinds of indicators in order to make a reasonable assessment of what we should put in the recommendations. I don't think broad generalizations are going to be really helpful to you at this point.

The Chair: I'd like to thank the Ministry of Finance officials and staff for presenting before the committee this afternoon and answering what were some interesting questions.

Mr Kaufman: As I said, the offer stands if members would like additional information. Certainly, we're available to provide that.

The Chair: Anything they would like to send you in writing would be responded to, of course.

Mr Phillips: In terms of that, I have the responses. I need a lot more clarification on it. Can I just go to them individually?

The Chair: Mr Kaufman has indicated he'd be glad to help you with that.

Mr Phillips: Great. Thank you.

The Chair: Now everybody's going to leave. We'll just allow about a minute for all the Ministry of Finance staff to clear the room and then we will ask representatives from the Toronto-Dominion Bank to come forward.

TORONTO-DOMINION BANK

The Chair: Next are representatives from the Toronto-Dominion Bank, Peter Drake, vice-president, economic research, and Mimi Curtis, economist, department of economic research.

Mr Peter Drake: Thank you very much for inviting us. Our intent is to speak for no more than about 15 minutes. I'm going to speak briefly on the Canadian economic outlook, my colleague Mimi Curtis will make some comments on the Ontario economic outlook, and then I'll come back and finish off with one or two comments on deficits and taxes and so on. Then perhaps the committee would like to ask us some questions.

Dealing then first with the Canadian economic outlook, we are forecasting an improvement in Canada's economic performance in 1994. I'm not going to spew out a lot of numbers to the committee, and in fact we've given out handouts that have a lot of this detail, but I think a couple of numbers are relevant.

We're expecting improved real economic growth in Canada this year. Specifically, we're expecting an increase of about 3.4% in real gross domestic product, and that's up from the estimated 2.5% in 1993.

Spending a moment on where that growth might be coming from, I think the first thing to note is that external economic conditions will continue to be quite favourable to Canadian economic growth, and that's especially important in this recovery. We're expecting slightly stronger economic growth in the United States. We're expecting some very modest economic recovery in Europe and Japan in 1994, but I stress that it will be modest and I think it will occur largely in the second half of the year. I think that to the extent it affects us, we will also see a better economic performance in Mexico.

The other external factor which is extremely important is the Canadian dollar, and I think we may see a little bit of weakening during 1994. It's even possible that we'll see a small amount of strengthening in the dollar in the latter part of the year. There is potential for volatility in the dollar from political events in Canada, and I suppose the Quebec election is the primary issue there.

If there is any kind of widespread failure by governments to meet their deficit projections or if they are not perceived by capital markets as dealing with deficits in the upcoming budgets, there is potential for volatility in the dollar, and if there is any kind of sharp volatility, we would expect the same sort of spikes in short-term interest rates that we've seen in periods of past volatility.

As for the possibility of the dollar strengthening, if we continue in Canada to have noticeably or markedly lower inflation than in the United States, we would expect to see some gradual strengthening of the currency, though I would stress that we don't expect a lot of strengthening.

Exports will continue to be the engine of growth in the economy. Clearly, that forecast depends on some reasonable United States economic growth, the United States being of course our main partner, but I think, more important, such a forecast assumes at least the retention of Canada's gains in international competitiveness, especially the gains in productivity and the gains in the

control of costs. Those are important and they will become even more important if, as we suspect, we begin to see some appreciation in the Canadian dollar, however modest that may be.

Another bright spot will be business spending. We've already seen some considerable growth in business spending on machinery and equipment. The demand for that is driven by the need for any and all businesses to continue to be competitive in what has become a very competitive and very international marketplace. It's being helped by a very substantial recovery in pre-tax profits. We're expecting an increase in pre-tax profits of about 30% this year, and that is a very substantial recovery.

I would point out, however, that even with that, and with a still substantial though smaller increase next year, it'll still be 1996 before pre-tax profits are back to where they were prior to the recession.

We may see the beginnings of an increase in non-residential construction this year. That has been a very weak spot in the Canadian economy, and I stress that what we see this year is likely only to be the beginnings. It's going to be 1995 before anything substantial happens.

We may see some increase in business inventories; they're very low. Businesses have been very cautious. As businesses become more convinced of the legitimacy of the recovery, we could see some improvement there.

We're expecting some improvement in housing, with housing starts to go up nationally to about 170,000 units from the estimated 155,000 last year, and that increase should be reflected in housing expenditure as well. Certainly, part of that increase is the expectation of a rebound in housing in Ontario.

Personal consumption expenditures I think will grow a little more rapidly in 1994 than they did last year, but they will continue to grow more slowly than the economy as a whole. There will be some increase in employment. Nationally, we're expecting an increase of about 200,000 jobs, and that will help, but there will continue to be economic factors restraining personal consumption expenditures. The unemployment rate will remain quite high. Nationally, I think it will average close to 11%. There will still be concern about job security and about low wage increases, so personal consumption is not ready to lead this recovery. It hasn't been ready to lead this recovery, and that I guess is one of the main differences between this recovery and past recoveries.

We don't expect governments to make a contribution to economic growth in 1994, simply because we presume the restraint all governments are under will prevent that.

We expect continued low inflation, a little higher than last year, a little bit above 2%. It was a little bit below 2% last year. That will reflect the lower Canadian dollar and a little less slack in the economy, but is certainly nothing to be concerned about.

We don't expect very much in the way of changes in interest rates. We could see slightly higher short-term interest rates, something in the order of 50 basis points or half a percentage point. That may well occur in response to some increases in short-term rates in the United States, but not a big change. We may see some small declines in

long-term interest rates. Real long-term interest rates are still very high and there certainly is some room for them to move down. That will depend partly I think on how governments deal with things.

I'm going to ask my colleague Mimi Curtis to make a few comments on the outlook for Ontario.

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Ms Mimi Curtis: Before we turn to Ontario's economic performance and outlook, I would first like to highlight some changes to our forecast from last year. We estimate moderate growth of 2.5% in Ontario for 1993, with growth accelerating to 3.8% this year. These growth rates are somewhat weaker than our forecast a year ago.

Over the course of 1993 we have seen weaker activity on the part of consumers. Consumers remain cautious. Domestic spending in Canada rose in 1993, but growth was slower than that for the economy as a whole.

If we look at retail trade, retail sales grew at below-average rates last year. New housing activity picked up towards the end of 1993, but housing starts for the year as a whole fell. In terms of how Ontario's economy has ranked relative to other provincial economies, Ontario's economy continues to outperform Quebec's. Among the provinces, economic growth has been the fastest in BC and Alberta in 1993, but this year growth in Ontario's economy will lead all other provinces.

Turning to economic performance within Ontario's economy, the benefits of improved competitiveness have certainly been felt in the province's manufacturing sector. During the first 10 months of 1993, shipments rose by almost 9% in nominal terms to about \$135 billion. Growth in manufacturing shipments was fairly widespread. Strong performances were recorded by the transportation equipment industries, as well as by the non-electrical machinery and primary metals industries.

If we look at Canada's manufacturing sector as a whole, we see that over the past two years there have been sharp increases in productivity. In 1993, manufacturing productivity, measured by real output per worker, rose by 3.9% in Canada, following growth of 4.5% in 1992. During the past year, the Canadian dollar fell sharply vis-à-vis the US dollar, which has also helped Canada's manufacturing sector become more competitive.

Turning to Ontario's export market, the value of exports grew by about 16% during the first three quarters of 1993, compared to year-earlier levels. The increases have been widespread among industries, with double-digit growth rates recorded in the exports of autos, plastics and rubber products, non-electrical machinery and electrical machinery, just to name a few. Over the course of the past year, the falling Canadian dollar and the continuing recovery in the US economy have helped stimulate demand for Ontario's exports.

Turning to Ontario's housing market, the recovery of new housing starts has been delayed until this year. The decline in 1993 resulted mainly from fewer starts in socially assisted units. There was also a slight decline in starts of private housing units. Total housing starts are expected to rise from an estimated 43,000 units in 1993 to 55,000 units this year. Generally speaking, the recov-

ery in Ontario's housing market will likely stem from the private housing segment as we don't foresee a sharp increase in socially assisted units. By next year, total starts are expected to climb to 61,000 units.

We expect a pickup in new housing activity over the forecast period, but new housing starts won't be near the levels reached during the housing boom of the late 1980s when starts averaged almost 100,000 units per year. During the late 1980s, the first-time home buyer group, generally individuals aged 25 to 44, grew. We expect that over the course of the 1990-95 period, the size of this age group will shrink. This demographic trend points to a housing demand which will be much lower than the levels recorded during the late 1980s.

We have seen interest rates decline in 1993. This has helped improve housing affordability. In Toronto, the improvement has been quite significant. For example, the household income required to purchase a resale home in December 1993 was about \$52,000, compared with \$60,000 in December 1992. However, the comparison is more dramatic if we look at April 1990, when interest rates and Toronto resale house prices were near their peaks. During that period, the income required was \$101,000, about twice the level required in December 1993. Interest rates have pretty much bottomed out and housing affordability in Toronto, as well as other major cities in Ontario, is not likely to improve much further.

Turning to Ontario's employment picture: Between December 1992 and last December, 64,000 net new jobs were created, most of them in the community business and personal services industries and the wholesale and retail trade sector. Why doesn't it feel like a full recovery? It's partly because the level of employment is still below the average level for 1989 as a whole before the economy went into recession. There has also been a structural change in employment. Between 1989 and 1993, the number and the proportion of self-employed workers in Canada grew.

Ontario's economic outlook is quite bright. Over the next two years, Ontario's economy is expected to grow the fastest in the country. We see continued strength in exports, a pickup in the province's housing market and improvement in employment, which should help brighten the consumer outlook. Employment will grow by just under 2% per year in 1994 and 1995.

However, Ontario's unemployment rate will remain at more than 10% over the forecast period. This is the result of faster growth in the province's labour force. The pace of economic growth in Ontario will accelerate from 2.5% in 1993 to 3.8% this year and to 3.9% in 1995.

Mr Drake will discuss Ontario's fiscal position.

Mr Drake: Just a few comments on debt and deficits. We have provided a useful perspective in one of the tables in the report on Ontario that was presented to you. If you look at the forecasts provided by the provincial governments in Canada and the federal government, we're looking at a total deficit this year of just over \$65 billion. If these projections are achieved, it will be a very tiny improvement from last year.

I mention the combined federal and provincial deficits

not because any one government's deficit or fiscal position is unimportant, but I think it's very important that we begin to look at the overall picture. I think that if these things are ever going to be solved, there's going to have to be much more in the way of cooperation among governments and much less in the way of one government trying to push the problem off to another.

Clearly the rating agencies are keeping a close eye on governments this year, and to the extent governments are not able to meet their deficit predictions, certainly there is the risk of further downgrades, and that of course can be translated into higher financing costs.

From a government's point of view, it's not just the concern about financial markets and the rating agencies, important as that may be. It's a serious problem and a difficult problem to solve. The harder governments work at solving the problem and the sooner they work hard at it, the better able they'll be to get on with the things that governments should legitimately do. It must be frustrating for governments: there are some things they feel they should legitimately be doing which they're constrained from doing simply because of their financial positions.

Just a couple of comments on what are some of the difficulties in dealing with government deficits. If one relied on past economic recoveries as a guide, one could be considerably more optimistic about economic expansion and economic recovery boosting government revenues. That clearly is a problem in this recovery. Low inflation restrains government revenues. Small wage increases and continued consumer caution, which is being reflected in lower than expected levels of consumer expenditures, are all having an adverse effect on revenue. So I think governments have to be pretty conservative in the kind of revenue projections they make.

It's not a time when governments can rely on additional taxes or tax increases; we're at the point where they're simply counterproductive in terms of the revenue produced. They are probably an issue in the increase of the so-called underground economy. When a population gets to the point where it thinks it's overtaxed, it tends to look for ways to avoid it.

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The solution to the problem is going to require a good deal more than cutting a little here and a little there. We seem to have a pretty fundamental problem. In effect, Canadians have been living beyond their means in terms of the government services they've been getting. It's very popular to say, "Cut here and cut there." I wish governments could perhaps take a slightly different approach and focus on the legitimate roles of government, and there are legitimate roles of government. Everybody talks about cutting, but there are legitimate roles of government, and perhaps if those could be redefined, it might be then easier to get the deficit thing under control.

I think governments should expect more help from the voters than they get. It's very difficult. There is a very widespread not-in-my-backyard syndrome. When I speak to audiences, and I do quite a bit of public speaking, I suggest to them that everybody's going to have to take some responsibility and I express some sympathy for governments. I think one of the reasons we have deficits

is that governments listen to people who ask them to spend money. I think now what governments need are people to ask them to spend less or to spend differently.

We have given you information on Ontario's deficit situation in the report on Ontario in terms of deficit as a percentage of GDP—it's falling; it is still above the all-province average—and some information on Ontario's debt and per capita debt and debt in relation to GDP.

Finally, just one sentence on the Fair Tax Commission report: I am not in a position to make any kind of detailed comments, but a couple of things struck me when I looked at the summary. Clearly, the ways governments raise revenue are terribly important. I would hope that in this particular economic and fiscal situation, governments would not concentrate on the way in which they raise money to the exclusion of the way in which they spend it. Perhaps it's a time to try and figure out a viable level of government services and then put more energy into how that money may be raised.

I think what the report tells us, and the very fact that there were so many recommendations from a group that obviously worked very hard, is that a number of the recommendations depend both on the actions and the cooperation of other provinces and on the cooperation of the federal government, which suggests that this is a question that needs to be studied, not just by the province of Ontario but by all the Canadian provinces and by the federal government. In that sense, it could be a very useful stimulant to some very important work.

Those are our prepared remarks. We'd be happy to try and answer questions.

Mr Cousens: I have two questions. One is, what are the ingredients that affect consumer confidence? It's one of those very loose, psychological things, but when we are thinking about consumers and their confidence and their ability to spend money, to what extent does the government play a role? The taxation level and the way it reduces the amount they have: Is that part of the process of their thinking?

Mr Drake: Good question. You're absolutely right. It's terribly important, but it is a loose concept. I think one of the things that really has been affecting consumer confidence in the last several years has been concern about job security. Consumers, I think, have been saying to themselves, "Look, If I'm concerned that I won't have any cash coming in, I'm going to be very careful about what I spend." I think that has been a major issue.

Governments are having an effect right now and I think it's in two areas. Many consumers are very much aware that deficits are a problem and I think that to some extent, until they can see a really good medium-term plan as to how these things are going to get dealt with, some consumers are holding off simply because they're saying, "Maybe various levels of government are going to have to raise taxes, and if they are, I'm going to be in a different economic position."

Another area where we're seeing the effects at the bank is in terms of people beginning to take more action on their own in planning for their retirement. I think they're showing us that they are concerned—this, I

realize, is more a federal than a provincial issue—about or the extent to which various federal financial support will be there in their old age. We're seeing this with our asset management group. It's not just that. I've got to be fair. It's also low interest rates. But I think this is part of it. People are aware that there is a problem, and so they're acting accordingly.

Mr Cousens: Ms Curtis, you were talking about housing prices and how they have become more affordable by virtue of interest rates coming down and the price of houses coming down and the combination of factors that go into it. When you say that during the mid-1980s we've been over \$101,000 or \$102,000 for a house which would be affordable—you'd have to be making \$102,000—and now today you could buy a house at \$52,000, what percentage of the money are you talking about that a person would be investing in their house or what is the range that is going through?

Mr Drake: I think the way that gets calculated is you take, first of all, the average-priced house in the particular region you're talking about and then you assume a 25% down payment. You then say that the rest of it, presumably, has to be mortgaged. You take the standard debt service ratio and you include, and you're going to have to help me out here, mortgage—

Ms Curtis: Taxes and heating.

Mr Drake: —taxes and heating, which are sort of the basic costs of the house. The mortgage payment plus those other payments add up to so-and-so and then you take the debt service ratio, which I think is roughly a third which is allowed. Then you say that in order to service the debt and to pay the payments, you need an income of such-and-such. That's how it gets calculated.

Mr Carr: I'd like to ask a question that would probably help the government in terms of what you think, but this is my third year on this committee and the government never listens anyway. So what I'm going to do is put you on the spot. I don't know if you can answer.

Looking at the last budget, the tax increases and the social contract—I'll ask both of you and you can give a one-word answer—how would you grade the government performance and that of the Treasurer? Let's make it A, B, C, D, E, F. Could you do that? How would you rate the government's performance on the budget last year and the economy? Would you like to give a shot at that?

Mr Drake: I'm going to give it a C+.

Ms Curtis: I'd have to go along with that.

Mr Cousens: Smart lady.

Mr Drake: I can explain if you want, but if you don't want, I won't.

Mr Carr: If we've got time, you can explain.

Mr Drake: There clearly were efforts at expenditure containment. I said to this committee last year that I didn't think it was the time to take money out of people's pockets in terms of tax increases. That was my view and it is my view. As far as the social contract is concerned, I understand where the government is coming from and given the rough ride they got into, I have considerable

sympathy for a government that thought they were being humanitarian but didn't get that reaction. There are limits to how far you can take that in terms of the size of the problem.

Mrs Mathysen: Just a couple of questions: You referred early in your presentation to Mexico, to its economy improving. I just wondered, very quickly, if the current instability, the problems they've experienced since New Year's Day, will impact that performance and what effect that might have on Ontario.

My second question has to do with the housing market. You noted that the number of housing starts was down and that was because of socially assisted units, the numbers there being down. I know that the federal program ended, so I know why the numbers of social units is down. I wonder, in terms of the health of an economy being measured by the number of housing starts, if those federal units had not been eliminated, would we be in a slightly better position here in Ontario?

I will confess to reading the newsletter of a competitor of yours. That competitor said that Ontarians have more after-tax disposable income than any other group in Canada. I wonder if that reflects your experience, and if that is indeed the reality, why people aren't spending. Is it an emotional reaction to all the bad news they keep hearing or is it really because we do have a serious economic problem that precludes that kind of spending?

Mr Drake: Let me try and start with the first one. The instability in Mexico certainly is a concern. Mexico is a country in a state of great economic change and clearly that's indicated in the problems that have been there. We don't pretend to be political analysts, but I think our view of it is that that serious problem will get settled and that the prospects for the Mexican economy are good.

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As far as the impact on Ontario is concerned, certainly there will be additional imports from Mexico and I think there will certainly be additional exports to Mexico. It's in Ontario's interest that Mexico grow quickly because I think that will certainly increase demand for exports from Ontario, just as it will for exports from the United States.

But it is a concern, and one of the things we would all be advised to do, perhaps, is to study Mexico a little more closely. There are differences in Mexico, and I don't pretend that I've done that. I do often have people come to me and ask me very blunt questions such as, "Why would anyone stay in Ontario given the wage levels in Mexico?" but it's not that simple. Mexico is not the same as Canada and it's not the same as the United States. I think it's wise for all of us, now that we are trading partners, to spend some time thinking about that.

I'm going to start on the housing question and Mimi will tell me when it's time for her to cut in.

Housing is an important part of the economy, but I think its importance at a time of economic recovery is less the absolute—or rather, the proportional size of the housing construction industry in the economy—than the fact that it tends to be a very stimulative activity. When one builds a house, one generates a lot of economic

activity. It's not just that one is employing people to do the building, but one is purchasing building materials of many kinds and types.

Housing has traditionally been viewed as, economists use the term, as having a good multiplier. In the sense that housing activity was down, yes, I think that did have an adverse effect on economic activity. Mimi, do you want to add anything to that?

Ms Curtis: I'll just mention the point that I have data in front of me that look at 1992 to 1994; it's from CMHC. They look at a breakdown of provincial housing starts by type. They have the assisted component and it was substantially larger in 1992 than 1993.

I don't have the historical numbers, but in terms of what we can support, in terms of demand, if you look at housing starts, the late 1980s was sort of interesting because it was when the baby-boomers were coming on to the market. It was when the typical first-time home buyer was apt to get into the market and purchase a home.

When we look at the next two years, we see demand being a little bit lower; actually, substantially lower than it has been during the late 1980s, so we do see a dropoff in terms of total housing starts because of demand.

Mr Drake: Again, I will start on the next one and Mimi may have some data which can help us out here.

Generally speaking, Ontario incomes have been quite high in relation to the other provinces. I don't think they've been the highest; I suspect the western provinces have been. I don't know whether Mimi has any data; if she has, she can be more specific.

I think the issue with Ontarians has been the depth and the nature of the recession. In terms of simple measurements, for example, decline in provincial gross domestic product, we already knew that Ontario took the biggest hit of any of the provinces. But I think it was more than that. It was the incredibly widespread and deep restructuring—the polite term that people use—in a number of industries, and of course especially in manufacturing industries. This was clearly much different than the kind of cyclical layoffs one has seen in past recessions.

I happen to live close to a Ford Motor Co production plant in Oakville. In past recessions, you knew that plant would probably have some downtime because the demand for durable goods would go down. But this time it was a much different thing. The restructuring, the layoffs, were not confined to what were the traditionally cyclical industries. They went through virtually every industry. It was a whole new ball game and a much bigger change, I think, than any of us understood as we went into the last few years.

There's one other fact I'd like to point out that I think illustrates consumers' behaviour. If you were to look at the Canadian national accounts for—I think it was the second quarter of 1993—you would actually see an increase in personal disposable income. That was a one-time increase and it was a reflection of the federal tax refunds that got sent out. I think they were pushed into the second quarter. If I recall correctly, that really wasn't reflected in terms of consumer spending; it was reflected

in higher savings. Normally, if that happened, you'd say, "Aha, yes, interest rates must have gone up." They didn't go up. It was just that people got some extra money, were particularly cautious and said, "No, we're not going to spend it, because we are concerned about the future."

I think this widespread concern about the future is a major issue and really is having a major impact, regardless of actual income levels.

Mrs Mathysen: What grade did you give the Wilson-Crow team?

Mr Drake: I haven't given them a grade. I will tell you, though, the comments that I have made. My concern is to the future. I'm going to make two comments. I've occasionally gone back and looked at a number of things that have happened during the past five years. You can look at the individual things: the free trade agreement, the GST, the high interest rates, the rising dollar—these are all past history—and any one of those had a pretty severe effect, but their effect together was especially severe.

If we had it to do over again, if someone said to me, "What might we have done differently?" I think it was the enormous number of things that were done.

If someone had said to me a month before the FTA went into effect, "What sort of foreign exchange policy might you expect from the Bank of Canada?" I would have said, "I'm sure they'd try and prevent the dollar from rising during this period of adjustment," and I would have been dead wrong, absolutely wrong. I think the answer there is that there were so many things that happened at once and they exacerbated each other.

Just to illustrate the point, in the FTA there was nothing that I'm aware of that said there would be an enormous increase in cross-border shopping. You still had so much that you could bring back before you had to pay duty. But that put the notion in the heads of consumers. Then we had the rise in the dollar, which made the prices much more attractive. Then we had the GST, which confused consumers in the first instance, because there was such diverse discussion about what that would do to prices, and in the second instance it simply made them mad. That in turn sent consumers across the border and one of the results of that was a virtual revolution in the Canadian retailing industry. Now, we missed all of that. As forecasters, we simply didn't pick it up. I understand now why we didn't, but that is illustrative of the point.

I guess the key thing for the future is that we have gained some very important things in terms of international competitiveness. We've paid the price. There's no question we've paid the price for the gains we've made, and my concern for the future is that, having paid that price, I don't want to see us lose it. I don't want to see the economy pay that price and not get something in terms of benefit for it.

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Mr Phillips: In terms of your economic forecast, my conclusion on it is that you're very close to what the government estimates for 1994. We're talking kind of at the edges of the envelope here in terms of differences. That's not surprising, because that tends to happen each year, that somehow or other the numbers have a similar-

ity. The government, I suspect, goes to people like yourselves and says, "What are you predicting?" and takes that into account. That's my take-away on the numbers from the Toronto-Dominion Bank, that in terms of an economic outlook for 1994, you're very close to the government numbers.

The one comment I would make is this: You indicate here that the number of jobs in Ontario in 1994 will be higher than in 1989, and I don't think that's factually correct. I think that even in 1994, according to your numbers and the government numbers, there still will be fewer people working than there was in 1989 or 1990. But that's a detail.

Where I would appreciate your advice is, I guess, in two areas. One is that the most troubling thing we heard this morning, apart from the job situation, which continues to be tragic, was that the revenue engine in the province is kind of in the ditch and spinning its wheels. We heard this morning that revenue will be down about \$1.6 billion lower than the government had thought for 1994-95. Tax revenues, in spite of tax increases, actually will be less in 1994-95 than they were four years ago. Something very fundamental is happening with revenue that is not explained by the normal formulas that are used.

Can you give us any insight into what may be happening with the normal revenue-generating sources that would see our revenues in such difficult shape? It can't be explained just by the weak economy.

Mr Drake: There are perhaps a couple of areas we can at least point to. One of them is inflation, or the lack of inflation. This has been a topic that's been discussed by both economists and indeed finance ministers for some time. I think it was John Turner who, as Finance minister, introduced the indexation of federal income tax brackets, and that would be back some time in the 1970s. He did that in recognition of the fact that in an inflationary environment you tend to get what was then called "bracket creep"—of course, it was at a time when there were more federal tax brackets than there are now—and that tended to raise government revenue quite substantially, without any changes actually having been made in tax rates.

A low-inflation environment—and I might say it's not just governments that have to learn to live with a low-inflation environment; it's quite a substantial change—tends to restrain the growth in government revenue. Associated with this environment, of course, is the fact that wages and incomes are not rising very quickly.

I just got the November collective bargaining statistics across my desk this morning. For the first 11 months of this year, the average annual increase in wages in collective bargaining contracts across the country was 0.7%. I suspect that's the lowest since they've been keeping numbers. So your incomes are not growing terribly quickly and that affects personal income tax. Prices are not growing and that affects excise-type taxes where the amount of tax is a function of the price of a good or service that is purchased.

I think inflation is certainly one fundamental issue and it's something that we haven't had to deal with for a long

time. We've had periods of the postwar period when inflation's been quite low, but not long periods. I think that's something that is going to have to be dealt with.

The other thing in terms of the economy recovery is consumption. Consumption is not leading this recovery, and that clearly has an impact on excise-type sales taxes and so on. So I think that's another issue.

The third one, and I can only make the most general comments, is the issue of the extent to which people are actively going out of their way to avoid paying tax, the so-called underground economy. It's very difficult to measure that. At the same time, I think most of us have a sense that it is becoming an increasing problem.

I guess my own view on that is that ultimately any government can only tax at a level that most of the population is prepared to accept. Obviously, no matter what level of taxes there will always be some people who will try to avoid them, and that's why you have systems in place to try and stop that. But ultimately you can tax at a level that the population will accept. I don't think there are any precise measures of that. It's something that is very much a matter of judgement. If in fact revenue is being severely affected by the so-called underground economy, the non-taxed economy, then I think it's something that governments at any level have to look at.

Those are the things that I can think of. Mimi, do you want to add anything?

Ms Curtis: I want to add something to your first comment about employment. I hope I can clarify something here. We were saying the level of employment by 1995 should surpass the average level for 1989. We don't foresee it surpassing the employment level this year.

Mr Phillips: Okay. I'm sorry, I misread that "by next year" to mean 1994. You're right. My apologies.

The Chair: That concludes our time, Mr Phillips. I'm sorry. Mr Drake and Ms Curtis, thank you very much for making your presentation before the committee today.

Mr Sutherland: Is this a new comment that's been put on your forecast at the bottom, "The information is drawn from other sources but we don't take responsibility or liability for the information on that"?

Mr Drake: We add that now because we are in the securities business and that's a requirement if you're in that business. It's not that we work any less hard or that we are consciously less responsible for what we do.

Mr Wiseman: I thought it might be a reflection of how badly you blew it in 1990.

Mr Sutherland: Or everyone else.

CONFERENCE BOARD OF CANADA

The Chair: The next presenter is the Conference Board of Canada, James Frank, vice-president.

Mr James Frank: I brought with me copies of two items for you. One is the executive summary of the Canadian forecast that we do at the conference board and the other is a copy of the notes that I'd like to speak to. If it's appropriate, I could proceed at this point.

The Chair: If you would just hold on for just a minute till we get these circulated and then we can proceed.

I think everyone has a copy of your reports now and you may proceed.

Mr Frank: Okay. Thank you. I have spoken before this committee in past years, and as an employee of the Conference Board of Canada I'm always pleased to do this. We are a major forecaster in Canada. We've been doing forecasts for Canada and the provinces for almost 20 years now. In all of the work that the conference board does, we take a position that is non-prescriptive. We don't advise governments on what to do or, for that matter, businesses that are members of the conference board. We're a not-for-profit organization and we are located in Ottawa.

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What I'd like to do this afternoon here is give you a bit of an understanding of the outlook that we have for Canada, and I'll comment a bit about Ontario as we go through this. We're just in the process of updating our Ontario forecast, and I've given you some numbers that we will comment on as we go through this. I hope the material I present to you will be useful as you go ahead in your deliberations. I'm not here today to lobby on behalf of my organization for anything in particular, so the tone of what I'm going to say is going to follow along in that light.

When we look at 1994, we're seeing an economy that is improving. I don't think there's much chance that we're going to have much of a setback, although we are on the low end of forecasters in terms of the outlook. I'm going to try to explain why that's the case.

We're looking for growth of about 3% this year. Inflation is just under 2%; the unemployment rate just under 11%. The performance of Ontario is now converging to the national average, and this is much better performance than we've had in the province for the past couple of years.

The overall economy continues to have a dual personality: The domestic scene continues to struggle while trade is leading the way.

Government spending on goods and services is going to drop by about 2% this year, we think. The same thing will happen in Ontario. This will be the first time that we will see real goods and services spending by governments decline since 1959 in Canada, so the restraint is in place and it is major.

Now, 1994, though, is going to see a broadening in the strength on to business investment, although we still believe the consumer is going to remain cautious and income constrained. I'll explain why that's the case. Interest rates are clearly not enough to alter the picture on consumer spending. What you really have to have, to go to one of the questions earlier, is sustained gains in employment and take-home pay, and that just has not been happening.

Despite the overall improvement, we say that the year is going to leave Canadians feeling much the same as they were in 1993. They face rising taxes and spending cutbacks as all governments deal with deficits, and there's going to be modest improvement in employment.

On the currency, we think it's worth about 83 cents.

This usually gets gales of laughter from business audiences. They say, "How can that possibly be?" Analytically, on a purchasing power parity basis, that's the number that we tend to work with as we forecast in the medium term. We tell all our members to try to plan their business affairs with that in mind and not to count on a 76- or 77-cent dollar to pull the fat out of the fire year after year. So in our forecast we bring the currency back up towards 77 cents by next year at this time.

In light of this outlook on the exchange rate, a major factor behind the improvement in the economy last year was the performance of net exports. It's an old story, but I think the same thing's going to be true this year. Trade is going to be a major support for us, so we expect growth of about 6%, following 9% in exports last year.

The US housing industry and the US purchase of autos and parts are particularly strong areas for us, and they are areas of major exports for Canada. It's particularly true, of course, in Ontario with the auto sector.

When we think about trade, it's important for a committee like this to realize that there's a lot of intra-firm and interfirm trade going on. It's more so the case now than ever in the past and I think it's one of the hard things that we've had to try to come to grips with in a forecasting sense. The integration of the North American economy is going to make that even more so.

Tracking exports requires us also to track imports, and we'll see strong import growth over the coming year, as we have in the past couple of years, especially in the area of machinery and equipment spending.

All of this said, though, the trade sector's not going to give us the same kick or the same boost that we've had for the last couple of years and that's an important thing to keep in mind, because you can't have the same kind of growth year after year that's been so strong. The main reason behind it is that the US economy is not performing particularly well and the Clinton package is going to depress that economy over the next few years. The Canadian dollar's decline is not going to help us again. In other words, it's a one-time adjustment that's already taken place. We'll get benefit from it as the year unfolds, of course, but the stimulus to growth is not going to come from that sector.

Japan is something that typically in Ontario we don't spend much time talking about, but it is our secondlargest trader. We export about 5% of our exports to Japan and Japan is in the tank. Europe is not producing or growing very well either and when you couple that with the US, you can see why we're not looking for another boost, if you like, of the same magnitude from trade.

In spite of the decent outlook that we have—I call it decent because it's relative to what we've been through for the past few years—there remains the key problem of high unemployment and it improves only gradually. Our forecast is for 10.7%, under 11% this year. Ontario we expect to be just under 10.5%. I think the number's 10.3%.

The issue of employment growth is proving very difficult for us to handle in our forecasting because we're increasingly of the view that productivity gains are

potentially so large that output can be boosted without the normal increases in employment that we have been accustomed to in the past. This is a structural change; it's something that's very hard to get your hands on.

We've had very large increases in machinery and equipment investment in the past 10 years. In 1993 we had a growth of 9%. We're forecasting 6% this year and also next year. A lot of this is labour-saving technology, of course, and it's a key reason why we expect employment growth of only about 2% this coming year in Canada and slightly weaker, also, in Ontario.

Firms remain reluctant to rehire. There still are lots of companies that are talking about major layoffs, now moving into the commercial services sector. We're seeing that still as a concern as the year unfolds.

It is important to understand this productivity connection because we may not get the employment gains that we would like because of this. We are forecasting only a small increase in non-farm productivity, at about 1% this year and next year. If productivity growth is stronger than that—let's say it were 2% or higher—then you would have a smaller increase in employment than we're expecting. I think that relationship is important to keep in mind, particularly noting that our machinery and equipment investment is now over 9% of GDP. So we're really pouring it on in that regard and I don't think it's going to change very much in the next year.

The extremely serious nature of the employment problem is showing up in manufacturing. You've been talking about this here at this committee for a long time. We had declines three years in a row and then we only got 0.8% growth last year. That's pretty modest.

The good news, we think, is that the worst is behind us. We wrote an article in the *Canadian Business Review* last summer on this topic and we think manufacturing will continue to prosper and recover but it's going to be a long time before it gets back to where we were prior to this recession.

Turning to the consumer situation, we don't see how you can have an economy performing very strongly until the consumer is willing to borrow again and this means they have to get their debt under control. This is happening. Interest costs, as a share of disposable income, are finally getting down towards around 8% from highs of over 10%, and things are improving on that front. The ongoing low interest rates and gradually improving employment should give us stronger household spending as we get through the second quarter of this year.

Consumer spending is going to generate average annual growth of only about 2% compared to only one sixth last year. In Ontario we expect it to be weaker and we should maybe talk a little bit about why we see that.

Why do we forecast such weak consumer spending and why are consumers concerned about borrowing, even with low interest rates? I talked about this at the Finance ministers' meeting in December in Ottawa. Part of the answer lies in the income prospects that we see and the other part is in the effects of low employment growth and the problems everyone has in finding a job. I think just about everybody knows someone who's lost their job and

who's been unemployed for a long period of time, and that affects people.

Within the unionized workforce we know that two thirds of the employees covered by collective agreements in the first nine months of last year had freezes or rollbacks—two thirds of them. So, ladies and gentlemen, those folks aren't going to have any increase in purchasing power in the coming year. This pattern is going to be pretty much followed through as we get more restraint. I see in Alberta they're expecting to cut public servants' salaries again. You're going to see restraint on that side.

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At the conference board we do a lot of surveying in the non-union sector in the fall each year of people's pay plans and we find that most companies are expecting something, on average, of around 2%. In our judgement, that's going to get downsized before the dust settles and we're saying here in this piece at about 1.75%. So for wage and salary earners there's very little in the way of personal disposable income gains for 1994, assuming no further tax increases. That's an assumption I think that will fail. There's no gain in real disposable income when you look at inflation of 1.6%. That's one of the main reasons then that we have consumer spending still struggling not only in Ontario but also in Canada.

Now, on the consumer confidence area I can bring you a little bit of good news here today because I just have the results for our survey which we do every quarter. It hasn't been released yet to the media. In the third quarter, you may recall, we had quite a drop in confidence and we were a little worried about whether that would rebound. I think part of it had to do with what happened in the summertime and so on, but in the fourth quarter confidence, as you can see in the text, jumped from 93 to 105 in Canada as a whole. This is really quite a nice result. More importantly, though, in Ontario there was a jump, from 81 to 112, in the fourth quarter.

What I would have to say to you, though, is that consumers are very nervous and they're very twitchy and so don't assume that this is on the way up for the duration, because I rather doubt that's the case.

When you look at business confidence, I also have the fourth-quarter number here for you. We had a nice rebound in the fourth quarter, up to 151, rose 14 points. Business people are more confident, quite a lot more confident in 1993 than they were in 1992. As we interpret those results and look ahead throughout this year, things in the business community from business people's perspectives are fairly positive, and I think that's encouraging. We're also, by the way, not seeing the volatility in the business sector with confidence that we find among consumers.

Turning to housing, you were discussing earlier the issue of affordability and that's been the case. Regrettably, though, we have missed on our forecast of housing starts quite badly in the last couple of years. We have been working on an analytical base that suggested to us that we should expect around 200,000 starts in Canada and last year we got 156,000. It's been very volatile, up and down each month and with a downward trend.

I think we're going to have to temper our view a lot because it seems that people's willingness to go and borrow, to take on a mortgage, to take additional debt, is just not there. There may be other things happening on the demographic front. You think about the boomerang generation, kids leaving home, coming home to live with their folks and this type of thing as maybe being a factor in here. We've no way of knowing that.

We're forecasting 180,000 starts this year. Sure, it's a strengthening area of the economy, but it's nothing to write home about. In Ontario, you can see you had 46,000 starts last year. We're expecting about 60,000 this year. That could be affected depending on how much social starts come though that we don't expect now.

Overall business investment in the construction sector is the area that is really weak. I think if you look around Toronto here, you'll be hard pressed to count many cranes. In Ottawa we had one and it was at Canada Post. It's now down and the building is finished. There's just not much going on in non-residential construction.

The major factor there, when you look at the 11% decline in 1992 and another 9% in 1993, is that we think the bottom has been hit. If you think of that as good news, well then celebrate. We'll have a little bit of growth this year; 1% is nothing. But I don't think you can look ahead at any major change there for the foreseeable future. The vacancy rate is just simply too high.

Machinery and equipment is a different story. It's quite well known and it's a very positive story and it is one of the things that is leading to good pickup and investment in the coming year. You can see the numbers that we're forecasting for this year.

I have to say a few words about governments, I guess, because it's more than anything else expected. When you look at the revenue prospects for governments, they're better this year than they've been for several years. We expect personal income growth of about 4% this year. That'll be twice what it was last year. The tax base is growing, and that means even if you didn't do anything, you should be pulling in more revenue than you have in the previous year.

Total direct tax collections by provincial governments from personal income taxes we're forecasting to rise by 12%. That's not just for Ontario; that's all provinces. I can't give you a number just for Ontario. That compares to only 1% last year. It's quite a different world we're talking about here. Also, we expect a 5% provincial retail sales tax revenue gain in 1994 compared to 1.6% last year. The bottom line is that the fiscal position of all governments is going to improve in 1994-95. Lord help me if I have to come back here next year with another round of deficits moving up by something like \$65 billion in total, compared to projections of something in the low \$50 billions.

Corporate profits I think are going to turn in some tax revenue for governments this year. We're forecasting about 7% growth, after a 9% increase last year. The fiscal situation of governments should improve from that source as well.

Now, on the infrastructure and spending side, this is

government investment, it's going to be a source of strength, as you can see in that table I presented to you. It's like the impact on housing starts from the social side; these are initiatives that have some discretion around them and that can make a difference. We're looking at 7% growth there in both federal and provincial investment spending.

The recent announcement of increased deficits by the feds and of course by most of the provinces underlines the difficulty that they've all had in deficit control during this recession. Despite the special one-time adjustments which increased the federal deficit, the fact remains that we added \$65 billion this current fiscal year, which ends in March, plus about \$65 billion the previous year. So that means we've added \$130 billion to the debt stock in Canada in the past two years. That takes us to 93% of GDP and rising. The fact is that the GDP increase in Canada will be less than the reasonably forecast deficits in the coming year. So that ratio will rise; that's just arithmetic.

Now, it's clear to us that both levels of government are going to have to work much more closely together and we're going to see more restraint measures, we think, through the balance of the decade. To this end, we took a very unusual step in this forecast. Typically, the Conference Board of Canada does not anticipate what politicians are likely to do in their budgets, because we have learned that they tend not to do what they say they're going to do. Most of the time, that has been our experience.

But what have we done this time? We've taken \$1 billion out of goods and services spending at the federal level and at the provincial level in each of this year and next year. If you're interested, we did not take it out of transfers to provinces for the federal government; we just took it out of goods and services spending. So that's not where it will all occur, but we have taken some money out of the forecast, and that's one of the reasons that our forecast is down there at around 3%.

On the monetary policy side, we don't have much change in interest rates over the coming year. There's really no reason for that to occur. We do think that rates pretty well have bottomed out, but I think if you listened to me speak here last year, and I see some of you were here, I told you that last year, and we were wrong on that one. Things have been a lot weaker than we thought. We don't think the change at the Bank of Canada is going to affect policy really very much. The government of Canada is, if you like, signalling pretty clearly that it's in charge of monetary policy in Canada by that change it introduced.

So just let me wrap it up momentarily here. We think that 1994 is going to feel much like 1993 to most people. I think as politicians that's going to be important for you, because we think the hopes that we've all had that there will be a mood upswing and everyone will feel more optimistic are pretty unlikely. Job hunting is going to still be very difficult.

Now, all of that said, the numbers are going to be better. We think that there will be gains overall in employment in Canada of about 250,000; about 85,000 or

so in Ontario. That's still pretty weak, by the way, but it's still heading in the right direction.

Two downside risks: The situation in Quebec obviously could cause some heartburn; and then secondly, and this is really important, larger than we expect, provincial government or federal government deficit reduction packages could put this forecast down further.

To just illustrate the point, last year when we were forecasting at this time for the year, we had a fairly decent growth rate. By the time Ontario and Quebec in particular were finished, plus all the other provinces of course, we had to take 0.7% off our growth rate for Canada as a result of those provincial budgets.

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So the irony of it was that because of that, the federal deficit rose. As I told you, we've taken out \$2 billion this year, \$2 billion next year. Some people would say that's small but at least it's a start in the right direction because we got blindsided a bit last year by what happened. We think the federal deficit will probably drop about \$10 billion from the so-called estimate of \$45 billion, as a combination of the normal growth of the economy and additional measures that are going to be put into place.

So with those comments, I'd be happy to try and answer any questions or address any issues you'd like to put to me.

Mr Sutherland: I have a couple of questions. Employment's going to rise but not strong, you said that consumer spending would be weak, yet you're predicting some significant increases both on personal income tax and on retail sales tax. If you could just reconcile those two, as to how they come together.

Regarding consumer spending, obviously the concerns about employment are the serious ones. I know you have mentioned much about personal debt and where that is these days as to whether that's come down substantially, and if you could make some comments or if you have some information on that, that would be appreciated as well.

Mr Frank: First of all, in terms of the retail numbers, that's a nominal gain that we're talking about here. So it includes the volumes of about 2% plus a small amount of inflation and then the tax generated on that that comes from a growing population that has increased consumption plus what's happening throughout the whole country. I can't give you numbers for Ontario on retail sales. So there could be a difference there.

Your question about debt, the level of debt is not dropping. What is happening is the growth rates have slowed down, that's the first thing. Most consumer debt is held in mortgages and the stock of that is not falling, but what is happening is that as people refinance, of course, they are paying lower interest rates. The key thing that we look at when we do our analytics on this is the interest component of disposable income. In other words, what percentage of your take-home pay do you pay in interest costs? That ratio peaked at, as I recall, a little over 10% in the worst of the recession; this time it's now down to just a bit over 8%. When it reaches somewhere between 7% and 8%, historically—this is important—

people tend to be willing to borrow a bit more.

The thing that's happening now is that there is so much concern about losing jobs, wage cutbacks, freezes and all that, that maybe it's going to have to fall a lot further before people will be willing to borrow.

Mr Sutherland: You mentioned mortgages. What about other forms of personal debt: credit cards etc? Has that all dropped significantly?

Mr Frank: People are drawing that down but that's a smaller proportion of the debt stock by quite a margin.

Mr Wiseman: One of the comments that you made earlier about the impact of the deficit reductions by government, this really throws us into a conundrum here because, as the opposition is saying, "Cut, cut, cut, cut"—that's on one day, but anyway—if we do this in a way that it's drastic or not careful, we could wind up throwing the whole economy back into a recession. Is that a fair statement or would you like to comment on that?

Mr Frank: Sure. Let me answer it two ways. If reducing deficits could cause growth in an economy, then there would never be a deficit; right? Because we would have reduced them to zero and we'd be running surpluses and the economy growing like crazy. So the first fact of life is, reducing deficits reduces the growth rate and it's because you are borrowing effectively and in the end less from abroad, other sources. If you borrow to meet your financial needs, for example, just within the country, then the impact of that is only on the differential between the spending patterns of the people you borrow from and the spending patterns in the people you give it to. But when you go and bring new money in from abroad, that is a net direct stimulus. So cutting deficits does slow the economy down, even with reducing interest rates.

The second thing is about the pace of this, and I think you're putting your finger on the issue that's important. During the federal election campaign the Reform Party was proposing to reduce the deficit at the federal level to zero in three years. The conference board does not make a habit of commenting on these things, but I found myself in a conference in town here and we just finally felt that we had to say this was simply impossible, that you could technically not do it. It would be too fast. The impact on people's confidence, on incomes in the economy, would have been so severe that it would have just put us back too much. Now, that said, the art of doing this requires the balance between monetary and fiscal policy, it requires a balance between the federal government and the provinces, probably a lot more cooperation between the two levels of government than has occurred over the past number of years, without being pejorative one way or the other on it, and I think it requires a gradual process. Really sharp moves on this front can rebound and work against you.

Mr Wiseman: If the borrowing requirements for both Ontario and the nation get to the point where we're not having to go offshore in the kind of amounts that we currently are, is it then possible to accelerate the deficit reduction?

Mr Frank: That's a good question and I think the answer would be yes to that, because what you would be

doing is, for example, by reducing your borrowing requirements, which is essentially your deficit, you would be leaving that money in the hands of one segment of the society from which you would normally borrow it, and they either have to spend it or save it, which finds its way into investment. So I think off the top of my head, that would be the case.

Mr Wiseman: My last—

The Chair: We have to move on.

Mr Wiseman: Oh, this was the important question.

The Chair: Unless committee members would allow you time to ask it. We are running short of time.

Mr Phillips: If it's urgent, I don't mind.

Mr Wiseman: I was just going to ask at what point the leakage of money out of the economy to pay the interest on the debt becomes a liability and starts to act in a counterproductive way to the economy as a whole.

Mr Frank: That's the challenge. I don't know where that actually happens. You'll hear people talking about "hitting the wall" and all that, and I think that the truth is we don't know when that happens. It's very risky to assume that it never will happen or that you can carry on. I frankly think we could not as a country add \$65 billion a year for much longer. I think the jig is up.

Mr Phillips: Again, I say that my take on your economic forecast is that it's in the same range as the government. Is that fair?

Mr Frank: I would say it is. I have not got numbers here for 1995. I would suggest to the committee that when we have this forecast completed, which should be within the next couple of weeks, you look at the 1995 forecast and also the government's 1995 forecast.

Typically, where we find governments a bit more optimistic is in the out years. They usually will have forecasts that are fairly similar to mainstream forecasting within the current year. I would say to you that we are a little less optimistic, I think, than Ontario treasury, if I gathered from the conversation earlier.

Mr Phillips: For 1994?

Mr Frank: Yes. Just a bit less optimistic.

Mr Phillips: They were saying 3.4% real growth.

Mr Frank: We're at 3.3%. I would say for practical purposes there's no difference there.

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Mr Phillips: Yes, and I think on housing starts you're actually a little more optimistic than they are.

Mr Frank: That's fine.

Mr Phillips: I always appreciated your comment on the deficit and certainly my memory from the conference board was that it gave the government, with its first budget, a lot of confidence, I think, because I remember the conference board said by and large you thought it was a pretty good budget, the first \$10-billion deficit one, and I can remember they always called you, "The prestigious conference board supports us."

Mr Carr: They were the only ones.

Mr Phillips: I think it was the only one.

Mrs Caplan: And you didn't support them, they say.

Mr Phillips: It was "the prestigious conference board."

Mr Frank: I must say, before you continue to repeat these horrid rumours, you should look at the article that I actually wrote. The headline in the *Globe and Mail* was something to the effect that, "Board Lauds Ontario Budget," and it was a bit misleading in terms of what we were trying to say there.

Mr Carr: It was the Premier that we heard.

Mr Kwinter: It didn't stop them from using it.

Mr Phillips: Yes, always it was "the prestigious conference board." But anyway, I want to get to the substance of the argument or the debate. There are two questions I would like your advice on. One is the one that Mr Sutherland raised. That is that we're perplexed about the revenue numbers that are coming in. They almost are unexplainable on any normal basis, so I would appreciate you expanding on your revenue estimates in terms of personal income tax and what not, because as the previous speaker said, which I support, I think the combination of the informal economy, which I regard as legal but as one designed to minimize tax paid, and then the underground economy, the inflation and the weak economy are all having an impact on revenues. But you're more optimistic, I think, on the revenue side.

The second one is just, I appreciate your view on the deficit and if I understand the argument you just made, if deficits were reduced and that made sense, then the economy would be growing. The converse of that is sort of, we have been running record deficits at a time when the economy has been as weak, over a three-year period, as it's ever been, I think. So one could argue that these large deficits have not seemed to help the economy and that maybe there's something besides just in terms of consumer confidence, business confidence, when governments run large deficits, that have a countervailing negative impact. Anyway, I'm just saying I know the government listens carefully to your advice, the prestigious conference board. Is it possible that the converse argument could be made, that these large deficits may have had something to do with the weak economy over the last three years?

Mr Frank: Let me address that one last and I'll come back to the revenue thing. You have to ask the question not on the basis of the observed growth rates that you've got in the economy now but what would have happened had the government in Ontario or the federal government or any other government cut its deficit significantly over the past three years. Would we have observed the growth rates that we currently observe, as modest as they are? That's the question. You can try and speculate about that answer if you like, but I would simply say to you that if it were possible to stimulate the economy with growth or get it to grow more quickly by cutting back, then most people would say we would have found that answer now.

To go to your second question, though, about the size of deficits and the duration during which you run them, that point, I think, is the serious point at this stage. We find ourselves, I think, in a situation where we have lost the degrees of freedom to stimulate in a big way at this point. So this is why we find ourselves with discussions

about infrastructure spending and reallocating money from this envelope to that envelope, where we say we will get a better hit for it. The classic example, of course, is the helicopter issue. But as we now move into this recovery period, and we are recovering and we have been since—we have actually been expanding since the second quarter of this past year, it's now time to start to turn that around. I don't think that you could consider, for example, moving ahead with a program that would increase deficits as a matter of policy. I think that's going in a wrong direction at this stage and I think that's what most people are arguing. But you can't sort of just say, well, I look at the situation now, and what would it have been otherwise? That's the really hard thing to answer, and you threw up your hands. You can do some analytical work on that and it will tell you the answer that I think you probably would anticipate.

On the issue of the economy and what has happened in the past couple of years—

Mr Phillips: The revenue.

Mr Frank: —on revenue, yes—I can't answer this well. One thing that seems to be showing up to us as to the source of the shortfalls on personal incomes taxes is that the kinds of people who have lost jobs this time have been more so high-income people, older people who have moved from fairly high-tax-paying jobs out of work or on to early retirement. I think that if we had access to the microdata to analyse that, we would find that in this recession more higher-paid, older people have been put out of work than was the case before. So when you look then at employment in gross numbers, X hundred thousand people working or not working, you miss the point, because you've got to look at how much money they were earning prior to losing their job or going on to early retirement. I think there's something in that that is here.

The other aspect of it, of course, is something that you have been talking about, this underground economy. Again, I have no way of analysing that. I don't know how large it is. I would reject assertions that people make that it's 20% of GDP. I think that's absurd. That would be \$150 billion. You cannot lose \$150 billion in this economy; it would show up in somebody's bank book somewhere. It's just too much. Could it be as much as 10% or 5%? I think that's the range we're really talking about here.

The second point about it is more important: Has it been increasing? I think most people would agree that it is, and I would agree that it is. But I sure don't fall into the camp that says it's 15% or 20% of GDP. That's way, way, way overstated.

If you're talking about 5%, you're looking at \$35 billion of unreported income, and then take the tax on that. This is still a large amount of money. So I think those are the factors. I think there's distribution on employment loss. There is this underground economy. I think also on the corporate tax side, the fact that you can bring losses ahead for so many years is a major factor there in terms of the corporate tax state.

Mr Carr: You said consumer confidence is going to be down next year.

Mr Frank: No, I didn't say it was going to be down.

Mr Carr: Or the same as this year. The only good news is that we're going to be a step closer to a provincial election and the great socialist experiment in the province of Ontario will be rapidly coming to a conclusion.

Mr Frank: What party are you with?

Mr Sutherland: They're getting pretty confident over there.

Mr Carr: I'm not with the socialists.

Mr Frank: Is he a Liberal or a Tory?

Mr Wiseman: You notice there's only one here.

Mr Carr: Mr Wiseman will be preparing to go back to the classroom. Anyway, one of the things that is being looked at by governments federally and provincially is the whole issue of government projects and capital projects. You may have heard the Treasurer say that they're going to announce within the next couple of weeks the federal-Ontario government program, money being spent.

Looking at it as an economist and looking at the spending and so on, and knowing that the number one issue is creating jobs, is that how we should be spending the money, and do you agree with the program that the federal and the provincial governments seem to be going ahead with in terms of the capital projects? Do you agree with it and should we be doing that?

Mr Frank: I'm going to cop out a little bit on that because I don't want to get into the value judgements on these things. That's your job as politicians.

Mr Carr: Can't you do it as an economist?

Mr Frank: As an economist, is it going to make a difference? The answer is yes. If you look at this little table here, you'll see that we have government investment growing at 6.9 last year here in Canada; 6.7 here in Ontario. A goodly chunk of that comes from additional moneys brought in in these infrastructure spending programs.

The catch, in our judgement, and the reason that we're not quite as bullish, shall I say, on the impact in Ontario or in other provinces is that the municipalities and the provinces have to come up with their third of the action. We believe it's going to be hard for them to do that short of taking it from other things they were going to spend on initially. To put it another way, it's not new money. Consequently, when you look at the macroeconomic effect, you're looking at the difference you get from spending, say, \$1 billion on roads, schools, bridges and so on as opposed to, say, \$1 billion on the helicopter program, where there are a lot of leakages there.

Mr Carr: Politically of course what it does is allow politicians to go out and cut ribbons and say, "We created jobs." As an economist, you seem to be saying one thing, and all governments of all political stripes do

that and try to take credit for the job. I laughed at the Treasurer this morning talking about jobs. He was trying to take credit for the jobs being created at the Ford plant. It was sort of like the rooster trying to take credit for the dawn coming up. They're scratching their heads, trying to find—but that would be political.

You seem to be saying revenue is going to grow. You seem to be saying we shouldn't be cutting more spending here and the deficit isn't really a problem. Is your recommendation to the Treasurer then more of the status quo, of what we're doing presently, and letting the revenue grow us out of this? If not, what would your recommendations be?

Mr Frank: We're not recommending to the Treasurer; we are forecasting that what will happen is that there will be additional expenditure reductions among provinces and at the federal level in 1994-95. As I said in my opening comments, we are not in the business of telling people or recommending to them what to do. I think it is pretty clear to us though, analytically, that you cannot grow out of these deficits. The record of the 1980s is I think crystal clear to anybody regardless of their political persuasion. The hope that may have been there in 1990 that this would take care of itself just isn't there. The level of the total debt now is, as I said, 93%, 94% of GDP, and it is not going to turn around as a share of GDP because there's too much stock there now. I think that simply is going to force governments, no matter who they are, to reduce spending.

Mr Carr: Thank you. That's very helpful.

The Chair: Thank you very much, Mr Frank, for making your presentation before the committee on behalf of the Conference Board of Canada. Mr Wiseman has a question for the researcher.

Mr Wiseman: We've been talking a lot about the spending of government money, where it was spent and the implication that there is a difference in multiplier effect from where you spend the money. I have never really seen any kind of breakdown of what the multipliers are for the various kinds of spending that governments do. If it's around, if it's possible, I would like to see the difference in the multiplier effect on spending money in construction of roads or of buildings and money being spent on other programs, if that's possible, if that's anywhere.

The Chair: The research officer has that question. I would just like to inform committee members that tomorrow afternoon we have Informetrica here. Mike McCracken's a forecaster and he's going to have the opportunity to have 45 minutes. So that will take us beyond 5 o'clock to 5:15. That's what I wanted to tell you.

If there isn't anything else, then this committee stands adjourned until 10 am tomorrow morning.

The committee adjourned at 1635.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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***Mathysen, Irene** (Middlesex ND)

***Phillips, Gerry** (Scarborough-Agincourt L)

***Sutherland, Kimble** (Oxford ND)

**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Fletcher, Derek (Guelph ND) for Mrs Haslam

Harris, Michael D. (Nipissing PC) for Mr Carr

Morrow, Mark (Wentworth East/-Est ND) for Mr Wiseman

Owens, Stephen (Scarborough Centre ND) for Mr Wiseman

Turnbull, David (York Mills PC) for Mr Cousens

Wood, Len (Cochrane North/-Nord ND) for Mrs Mathysen

Clerk pro tem / Greffière par intérim: Bryce, Donna

Staff / Personnel:

Campbell, Elaine, research officer, Legislative Research Service

Israel, Edward, research officer, Legislative Research Service

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Third Session, 35th Parliament

Assemblée législative de l'Ontario

Troisième session, 35^e législature

Official Report of Debates (Hansard)

Thursday 20 January 1994

**Standing committee on
finance and economic affairs**

Pre-budget consultations



Journal des débats (Hansard)

Jeudi 20 janvier 1994

**Comité permanent des finances
et des affaires économiques**

Consultations prébudgétaires

Chair: Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 20 January 1994

The committee met at 1009 in the St Clair/Thames/Erie Rooms, Macdonald Block, Toronto.

PRE-BUDGET CONSULTATIONS

Mr Gerry Phillips (Scarborough-Agincourt): Mr Chairman, just before we begin, I submitted a list of questions to the Finance officials, and frankly, if you had a chance to review the answers, they are non-answers.

Yesterday we got one number from the Ministry of Finance around the fiscal situation for next year. We are operating in a total vacuum right now, and I would hope that the committee would share my view that we can't finish our work until we get some numbers from the Ministry of Finance. I had assumed that they were going to respond to my questions. I don't know whether you had a chance to look at my questions and the answers, but they are essentially non-answers.

We have no estimates of expenditures for next year. We've no idea how much the government plans to take in in revenue by account or expend by account, and I would hope that we would have the Finance officials back as soon as we can to give us those numbers. I looked at even what was provided last year and it's far more detailed, and we're presumably into an open process now.

I don't want to take the first presenters' time and I don't know that there's another time for me to raise it, but I wanted to alert the committee to that, to say that I've had a chance to read the responses; they are non-responses. In some cases I found—how would I put it delicately?—it was difficult to get the meaning of what they were saying out of their responses and I found some of the responses ran the risk of misleading us if we didn't get behind the language.

I would hope we'd have them back, perhaps in two weeks, but certainly before we have to begin to write our report, and I would hope they could provide us with some of the detail that we're going to need to make any reasoned conclusions.

The Chair (Mr Paul R. Johnson): Thank you, Mr Phillips. I'll take your concerns before the Finance officials and indicate that the committee would like to have some additional time with them.

Mr Kimble Sutherland (Oxford): We did have a very thorough presentation yesterday. If there are specific pieces of information that Mr Phillips or other members would like, they should probably identify them as compared to last year's presentation, just so the Finance officials could get that together. With respect to the questions Mr Phillips already submitted, the committee was given only the response in terms of answers, so I'm not sure in all cases what the specific questions were, but the deputy minister did indicate that if Mr Phillips wanted to spend some more time with them, they'd be certainly willing to do that.

Mr Phillips: I'm sorry you didn't get the questions.

I sent them to the committee Chair.

The Chair: You didn't get them?

Mr Sutherland: The form that's given doesn't in all cases give all the specific questions that were asked.

Mr Phillips: I hope you have a copy of my letter to the committee.

The Chair: Every member of the committee got a copy of your letter and your questions and the answers that were supplied by the Finance ministry officials.

Mr Phillips: I'm sorry to take your time, but I think before we can proceed to write a report, we need to have revenue estimates. Specifically, last year there was—

The Chair: Mr Phillips, if I could just interject, the clerk has indicated that there certainly are a couple of half-hour slots that we could fit these officials into with regard to meeting before the committee again.

Mr Phillips: Okay.

The Chair: However, will that be sufficient time for them to answer the questions, in your opinion? Otherwise we're going to have to look at scheduling some additional time outside of what we have.

Mr Phillips: I think if they can provide us with the material in advance, it's sufficient time.

The Chair: In writing? Would that be sufficient?

Mr Phillips: Yes, then we can discuss it with them.

The Chair: Okay.

Mr Phillips: But my questions were very specific and the answers were—

The Chair: Your directions are clear now.

SCHOOL BUS OPERATORS'
ASSOCIATION OF ONTARIO

The Chair: The first presenters we have before us today are the School Bus Operators' Association of Ontario. Excuse us, gentlemen, for having to deal with some committee business. However, if you would like to proceed now, we will probably run a little bit over in order to accommodate you. Please identify yourselves as you speak for the purposes of the committee members and for Hansard.

Mr Bill Heslop: Mr Chairman and ladies and gentlemen, firstly, on behalf of the School Bus Operators' Association of Ontario we'd like to thank you for the opportunity to meet you and to speak with you this morning. We understand that you'll be hearing a great many presentations during this pre-budget consultation process and we also appreciate that you'll be called upon to make some very difficult decisions regarding the fiscal advice which this committee will provide to the government.

I'll begin with introductions. My name is Bill Heslop and I'm a past president with the association and vice-president of the Canadian division for Charterways Transportation, based in London.

To my immediate right is Dan Stock, who was the

association's representative on the interministerial work group that dealt with school bus safety and is vice-president of Stock Transportation Group, which is headquartered in Markham.

Also with me is Jeffrey Goodman, who's the executive director for our association, and Brian Babcock, the association's vice-president and the president of Babcock bus lines based in Beamsville.

The School Bus Operators' Association of Ontario is a voluntary association representing the interests of school bus service providers located in every county of this province. Through leadership and education, this association has striven to enhance the long-term safety record, stability and viability of the industry in Ontario.

The membership in our association represents 80% of the 18,000 school purpose vehicles currently operating in Ontario. Those buses would transport over 800,000 students to and from school daily.

It's interesting to note that, even as the industry has serviced the increased demands placed upon it by expanding education programs, the overall per diem rate increase for the 15-year period 1974 through to 1989 was less than the rate of inflation for that same period. You'll see that experience highlighted in appendix A.

To the taxpayers of Ontario, the yellow and black bus is simply the most secure and cost-effective means of transporting students. We are proud to add that our safety record is second to none. To support that, Transport Canada has observed that a child is 16 times safer riding on a school bus than any other motor vehicle, including the family car.

Both our fellow school bus operator members and our 23,000 employees—and I would note that this industry is characterized by a majority of female, part-time employees—are deeply concerned about considerations within the government to reduce the general legislative grant to student transportation for the coming fiscal year.

The proposed cuts may possibly be as high as \$20 million. This proposed reduction is being considered in addition to the \$21-million cutback announced last year and the budget flat-lining enacted during the previous fiscal year, so we're looking at a combined reduction of \$41 million. When added to the industry's history of rate increases below the rate of inflation, we feel it represents a clear threat to the accessibility of safe and secure transportation for Ontario's schoolchildren.

As you are all aware, the provincial share of funding for student transportation is provided through general legislative grants by the Ministry of Education and Training. In announcing the most recent cut, the Honourable Dave Cooke requested specifically that school boards renew their efforts to realize cost savings through efficiency measures, rather than simply passing the shortfall on to municipal taxpayers.

Although the intent of the provincial government has been to improve overall efficiency of the student transportation industry by controlling total expenditure, in practice the result has not always been consistent with the original vision.

Previous funding cuts have left some students without

transportation of any kind. Some students have been exposed to greater safety risks through walking to school or riding municipal transit vehicles. Future cuts may well exacerbate the situation.

The School Bus Operators' Association of Ontario believes the safety of schoolchildren remains the first priority of student transportation. We also know that this vital public service can continue to be provided in a highly cost-efficient manner.

By restructuring the delivery of student transportation, overall efficiency of Ontario's student transportation network can be improved to such a degree that expenditures are stabilized, yet safety and service levels are maintained and not compromised. In 1989 this association recommended such restructuring to the government and we stand by that recommendation today.

The measures we advocated back in 1989 included the following: combine facilities, administration and transportation offices of public and separate school boards; combine public and separate school students on the same bus; combine elementary and secondary students on the same bus; increase the flexibility of school hours to make better use of buses, to make double and triple runs viable; extend walking radiuses where safe and practical; and, wherever practical, use full-size buses.

1020

Effectively, what we were advocating was a substantial reduction with respect to the number of buses that would be necessary to exercise the levels of service provided at that time.

For example, staggering school hours by just a few minutes can allow double and sometimes triple routes to be accomplished by the same school bus. The marginal cost of doubling and tripling is far less than the cost of running multiple vehicles.

In many areas, coterminous boards can share transportation services by allowing elementary, secondary, public school and separate school students to ride the same bus. This practice allows fewer vehicles to be utilized to a greater capacity.

Such efficiency measures are already in daily practice in some parts of the province, although they are not widespread. Too often now, school boards need more immediate relief than that offered by restructuring the delivery of services. They opt to cut services or cut contract rate increases instead of restructuring.

Continued across-the-board cutting of funds will, we feel, do little to help realize the government's wish to maintain high safety standards while stabilizing student transportation expenditure.

For reasons of both safety and economy, the School Bus Operators' Association of Ontario has repeatedly cautioned the province to curb a trend by some school boards to transport students on public mass transit systems. We stand by this counsel today and further urge that full-cost accounting be employed to compare the total cost of transporting students by municipal transit versus school buses.

At present, heavy capital cost and operating subsidies paid to transit properties by the Ministry of Transporta-

tion remain unaccounted for in student transportation expenditure by the Ministry of Education and Training. The taxpayers of Ontario pay the ultimate price regardless of which ministry receives the bill.

We are sensitive to the need to control expenditure and reduce public debt. But we submit that the public good will be more constructively served by long-term restructuring than by short-term funding cuts.

We respectfully ask the members of this committee to recommend against further reductions of student transportation funding at the provincial level until such time as restructuring initiatives can be implemented to realize greater cost-efficiency.

On behalf of the School Bus Operators' Association of Ontario, I'd like to thank you for your time and attention this morning. At this time, I'll be pleased to answer any questions your committee has.

The Chair: Thank you very much for your presentation. We have about 20 minutes, about seven minutes per caucus.

Mr Phillips: I appreciate the presentation. There's almost a dichotomy in the presentation in the sense of the group saying there's a problem as we reduce expenditures but then saying there may be opportunities for significant cost savings if boards were to adopt your recommendations.

Mr Heslop: Yes.

Mr Phillips: My question is, is it a question that there's not enough money being spent or that the money that's being spent is not being spent efficiently?

Mr Heslop: I think the money that's being spent is probably not being spent efficiently. When you look at our recommendations, where there could be more efficiencies, we don't see that there are incentives through the funding process for school boards to look at multiple-route systems.

To give you a quick example of that, the way the funding mechanism works now, as far as transfer payments to the school boards from the Ministry of Education are concerned, a school board can be funded for one school bus operating 185 days. They get payment for 200 days for that particular vehicle doing one single run, say, doing a secondary school run. If an elementary run was added to that route so the bus is now doing another 100% and you've got two school bus routes with one vehicle, the way the funding mechanism works is that the school board will still get payment of 200 days for one vehicle and that vehicle will now operate probably 192 days because of split panels where there's a secondary day off and an elementary day off and the PD days don't coincide.

So the school board is looking at that situation and saying, "Are we going to get better funding through single routes? Yes, we are," then looking at maximizing and doubling and tripling up the routes.

If there was some incentive through the funding mechanism for the school board to look at multiple-route systems, I think there'd be a heck of a lot more efficiencies than what there are now.

Mr Phillips: I think that's a useful comment for us, because I now have a different possible interpretation on your report, or at least possible recommendation, which is not to be urging the government to spend more money but to say that, somehow or other, the way we have historically structured the grants system inhibits or doesn't reward—doesn't encourage efficiency may be a better way of saying it.

I think one thing that the committee might even all agree on is to request the Ministry of Education, along with people like yourselves and school boards, to examine the way the funding mechanisms work to see if we can't develop something. I'd much rather pursue that route than be urging the government to spend more money or what not. If you think there's potential there, and it sounds to me like you do think there's good potential there, then maybe we can be another helpful catalyst.

The reason I really appreciate your presentation is I have a suspicion there are an awful lot of other things around in government generally where the system was set up on an old basis and if we could find the keys to unlocking the productivity, then we can indeed improve service and reduce spending.

Mr Bruce Crozier (Essex South): Mr Heslop, I'm an anonymous observer at this committee, but I have a question and then just a quick comment.

The question is, I wonder if you could give us some idea of how many school boards are moving towards efficiency—that being separate and public boards—by combining their routes the way we have in my riding, in Essex South, with the county school boards.

Secondly, my only comment is that there's a suggestion that elementary students and secondary school students be bused on the same bus, and if it's at the same time, I assume, I have a concern that we're mixing age groups of perhaps 19-year-olds with nine- or 10-year-olds. I have a bit of a concern there that the younger children perhaps shouldn't be bused with the older ones.

Mr Heslop: To answer the first question, I would suggest that there are very few boards that are exercising the sharing of buses with the separate and public school students. Yours would probably be unique, and it is unique. I'm fairly familiar myself with most boards' operations throughout the province, and Essex is a unique situation.

Dan, would you have a comment about any experience that you know where there's combined separate or public?

Mr Dan Stock: There's a lot of discussion currently going on, but actually working like it is down in your area, there are very few of those. We are involved in a lot of discussions and try to encourage that. We try to come up with some different ideas on how we see some opportunities. But at this point the actual implementation is still very limited.

Mr Crozier: I appreciate your encouragement to do that.

Mr Brian Babcock: I want to concur with Dan Stock's comments. We see a lot of interest. Although

Essex is very advanced in its promotion of combinations between the two boards, other instances in the province are more isolated. There are some. But there certainly is a lot of interest in the year 1994 and in 1993 in combinations being pursued.

Mr Heslop: With respect to the second part of the question, and that's elementary and secondary students riding on the same bus, that's been a practice that's certainly been prevalent in the rural areas for a number of years, not so much in the urban areas, where they have separate buses for the elementary kids and for the secondary kids. I don't see it as an issue, because it's been something that's been practised for a number of years in the rural application.

I think it's something that could work effectively; if not that, certainly the multiple route system where you're picking up the secondary students first and then picking up the elementary students a bit later to follow on, using the same vehicle.

Mr David Turnbull (York Mills): Turning to page 7 of your presentation, at the head you have this discussion of "heavy capital cost and operating subsidies paid to transit properties by the Ministry of Transportation remain unaccounted for." Could you just expand on those comments?

Mr Heslop: Sure. What we're seeing is a situation where some students have been shifted from regular school bus transportation on to transit vehicles. It's something we cited some years ago and certainly saw a growing trend for municipal transit operations to capture that market. It appeared to be a very attractive situation for the school boards to buy bus passes, an attractive situation for the municipal transit operation to increase ridership, an attractive situation for the Ministry of Education to put out moneys for bus passes as opposed to moneys related to contracting out to private contractors.

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What the situation presents is a lack of full cost accounting, because who's paying for the \$225,000 transit bus but the Ministry of Transportation? Those are the moneys that aren't accounted for. What we're citing is that when there are dedicated vehicles, not just transit buses that have only school students on them but transit vehicles dedicated to the system because of the number of students riding within the system, if you took the students out of the system, how many \$225,000 transit vehicles could be removed from that system to look at a more efficient way to transport those students on a \$50,000 school bus which has safety features second to none? So we see that there's a lack of full cost accounting. When those bus passes are being purchased, someone else is paying for that vehicle and that's the Ministry of Transportation, 75 cents on the dollar to the municipality. I believe that's the current contribution from the ministry.

Mr Turnbull: Please understand what I'm trying to do is to step back and not see it either from your point of view or from the transit unions that operate the main transit authorities. I'm just trying to see it from the taxpayers' point of view.

If you've got those vehicles, that is a sunk cost. The

question is, are we looking at better utilization of those vehicles or are we looking at the fact that there would have to be more investment by the Ministry of Transportation to subsidize further vehicles? So truly your argument becomes valid, that it isn't reflecting the subsidies.

Mr Heslop: We've identified through a study that was done by Ernst and Young—it was actually done in the Windsor area with Windsor transit—that there were 16 to 18 additional vehicles in the system that could be extracted from the system that were transporting students. That's 16 times \$225,000 or thereabouts. So we're looking at dedicated vehicles, not vehicles that are sitting in the system, where there are half a dozen or maybe 20 kids on the bus and that bus still has to remain in the system.

Mr Turnbull: We're not talking about something which is just going to do the normal bus routes and they just happen to get on with a pass.

Mr Heslop: That's right.

Mr Turnbull: This is something where you're saying, "Okay, we're going to shift them over during those hours, two or three school suburbs."

Mr Heslop: That's right. I can give you a number of examples where the municipal transit operations have dedicated vehicles where that bus does nothing but transport students. They've got the funding from the Ministry of Transportation, 75 cents on the dollar, to buy the vehicle and they're transporting school kids to and from school with those vehicles. It's widespread throughout the province.

Mr Turnbull: I think your point about full accounting for the cost is well taken. If the Ministry of Education were to move more and more people over to municipal transit authorities—I had contact from your association a few months ago, and there was a rumour that the Ministry of Education was looking at heavily moving over these children to using transit systems where they were available—what would be the likely impact on your business in terms of job loss?

Mr Heslop: It would be severe. We're looking at some 23,000 employees related directly to the school bus industry in Ontario. It would be substantial. There would be a number of unions affected, because a number of the bus operators have certified associations or unions. It would relate to some drastic layoffs, and to full-time employees including mechanics and so on.

The economics of students riding on transit is one issue, but I think the more important issue of students riding on transit is the safety issue. Maybe again I can ask you to elaborate on that.

Mr Stock: I think something that's important to understand here is that school bus transportation for students is a very specialized transportation. Bill said in his introductory presentation that we're 16 times safer than any other vehicle. That doesn't come by any fluke or luck. We have considerable effort that has gone into safety.

You may be aware of some of the basic requirements through the Ministry of Transportation for school bus safety, for vehicles and drivers, but there's much more of

that. It involves our whole industry, all aspects, safety does. It involves drivers, it involves vehicles, it involves education of students for bus safety, it involves public awareness. It's a very specialized system that offers a very high level of safety and security for the students.

In our industry, as costs are reviewed and reduced, it threatens that proactive approach that we have had in the past for safety. We're very proud of our record and dearly want to continue it, but a long-term reduction in cost—we still believe that through more efficient restructuring, that safety can stay in place. We're quite confident of that.

Mr Turnbull: Can we just go to restructuring in terms of hours of school operation? Essentially what we'd have to do is get the teachers' unions to agree to having different hours of work. I understand why you make the claim that there would be savings seen from the cost to transport the children, but we've got to look at the whole industry. Have you done any studies to support what the costs would be, and would some children end up with unacceptably long bus journeys to school because they were on the bus because they were going to, say, junior and elementary schools or whatever?

Mr Heslop: As far as the time on the vehicle is concerned, no, it wouldn't be excessive. We're not looking at wider bell-time changes for the schools. We're not looking at any hours extra that teachers would have to work. We're looking at moving the secondary kids in probably earlier and the elementary kids to follow with the same vehicle. Their time on the bus wouldn't be any different than what it is at present; it's just utilizing the vehicle and in some cases widening the bell times, the start times of the school, by minutes, not by half-hours or hours or that type of thing. It's something that's been very proactive south of the border, where they have made substantial savings; and in this province too, where some school boards have gone to multiple-route systems, there have been some substantial savings, but very few have really done that.

The Chair: Mr Turnbull, we have to move on.

Mr Turnbull: Just one last quick question. Is it your contention, absolutely bottom line, that overall taxpayers would pay less dollars if they were to do this rather than what they're presently doing, as compared with putting them on public transit?

Mr Heslop: Yes.

Mr Turnbull: Okay. Thank you.

Mr Sutherland: Thank you very much for coming. I just want to pick up on a couple of points from Mr Crozier. We do have schools in the province that are kindergarten to grade 13. So they would have to be bused together. There are some areas of the province where busing between the two boards has gone on for quite a long time. I believe we've heard that from the Ontario Separate School Trustees' Association in the past, and I see we have the Ontario Separate School Business Officials' Association, so maybe we'll be able to confirm that a little later.

I have mixed views on your presentation. I have a school bus manufacturer in my riding and one just

outside my riding. I also have a company that's heavily involved in selling buses in my riding as well. But I think all of us agree that we need to do more on the efficiencies aspect. Could you give us some sense as to how much the savings are or what percentages we'd be talking about in savings if there were more public and separate boards that were going to joint busing initiatives? Are we talking a 10% saving here, are we talking 25%, are we talking 30%?

Mr Heslop: It's difficult to pin down that number. What we were looking at originally, if the measures that we had cited back in 1989 were put in place, there could be a reduction of 10% to 15% of the buses operated in the province. Brian, maybe you would like to elaborate on that a bit.

Mr Babcock: The only thing I can say to that is without direct surveys that would update current information it is as you imply in your question; a "guesstimate" I guess is the word I would use. But I feel the range that Bill has cited of 10% to 15% is not inordinate. What needs to happen logistically is you have to stair-step into that, if I can suggest. It's difficult through the logistics to move immediately into that kind of a saving. It's a case of doing the planning so that you avoid some of the concerns that member Crozier raises, that you stair-step down to those kinds of savings.

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Mr Sutherland: None of you who are here represent any of the areas that I'm aware of that we've given money for boards to develop computerized programs, joint boards through some of the restructuring. Oh, we do have?

Mr Heslop: Yes.

Mr Sutherland: Okay. Where are we at that stage? The money has been given to the boards to develop the computerized programs. Are those systems up and running? Do we have joint busing going?

Mr Stock: I think, as I said a little earlier, there's been a lot of discussion go on. We've seen in numerous boards, recognizing that the transition funds have been out there, there's been discussions, the coterminous discussions that've gone on between the two boards.

There's been a review of what possible types of efficiency can go out there, whether it's automation, whether it's combining and coterminous, whether it's a restructuring in terms of school hours. There's a lot of that discussion going on. I would say a relatively small percentage still have actually implemented some sort of restructuring. Again, please, there is a lot of positive talk going on out there right now.

Mr Sutherland: Hopefully, you'd expect quite a few for the fall to be in place?

Mr Stock: More, but again, it continues at a fairly slow pace.

Mr Babcock: Again, I want to really support what Dan is indicating. We have one situation where there will be implementation of that plan in September 1994. Transition grant funding has been used to fully automate and integrate the two-board systems. In other situations, we see a high level of aggressiveness between the two

boards to act on that. I would suggest if they don't implement it in 1994, probably in 1995. We're seeing aggressiveness we haven't seen before. So I want to support those comments.

Mr Jeffrey Goodman: I think all the members have picked up on an important thing about how to get the boards to work together. We've spent a lot of time and energy, held conferences, invited various boards, trustees, operators to come and talk about it. What we find is that, while it's a good idea, it's harder to see it implemented. What Bill pointed out earlier—and perhaps your committee could have a role—was in getting the incentives.

In talking to local school boards, one of the things they've identified is that when they integrate most of the savings accrue to the province rather than to the local board. They find there's not a large financial incentive.

One example that was given at a conference of board officials: Of the savings, \$2.3 million accrued to the province, \$300,000 to the board, out of which it had to pick up the extra expenses of doing these double runs, so it netted maybe \$100,000 in savings. Then there was a dispute that the province said, "Well, there are savings and it's your job to run as efficiently as possible." They were saying, "Yes, but there certainly isn't much incentive here." If there were ways the mechanism could reward that behaviour, it might be useful.

The Chair: Our time has expired. I want to thank the School Bus Operators' Association of Ontario for presenting before the committee this morning.

CITY OF TORONTO

The Chair: The next presentation that we have this morning is from the city of Toronto. I understand that Mayor June Rowlands won't be here this morning. Councillor Betty Disero will be here in her place. If the representatives of the city of Toronto could please come forward, make yourselves comfortable and when you are ready, if you would please proceed, and also, if you would identify yourselves for the purposes of the committee members and Hansard.

Ms Betty Disero: Good morning. My name's Betty Disero and I'm chair of the economic development committee for the city of Toronto. I'm joined this morning by John Woods, who's the commissioner of finance for the city of Toronto, and Peter Tomlinson, who's the director of economic development. I'd like to, first of all, say thank you for allowing us to come and speak to you today.

The final report of the Fair Tax Commission presents an unusual window of opportunity. Such an opening might come along once in a generation or so. It is now up to the provincial government to follow through on the necessary action and the recommendations from the Fair Tax Commission.

"There is a tide in the affairs of men which, taken at the flood, leads on to fortune." That's a quote by Shakespeare which sort of sums everything up quite well. Here's an opportunity, grab it, because it may lead to fortune and better opportunities for all municipalities across the province.

Metro council has just seen two years of divisive,

deadend debate on property tax issues. That experience has brought the future of Metro itself into question.

The fallout from MVA and equalized assessment debates is accumulating steadily. We see accelerating volumes of assessment appeals, leading probably to fiscal crisis. There is no room to increase tax rates to compensate for lost assessment. Tax rates are already too high, so the crumbling assessment base leads to even deeper spending cuts than those already on the table.

I can assure you the city of Toronto is going through hours and hours of trying to figure out where to cut, and has been for the last couple of months. I'm sure you've been reading about it in the paper. Such cuts are not possible without eliminating vital services. Our quality of life is very much at stake here.

We are also facing renewal of cross-border upward assessment appeals initiated by the city of Scarborough last year. You might suppose these appeals would reduce assessment losses due to downward appeals. They might have a small positive effect, but there is no justification for cross-border appeals. It's just unacceptable that home owners should be targeted and hauled out before tribunals in this manner.

We also see many small retailers in Metro facing tax increases of more than 100%. This is occurring in shopping malls as a result of reapportioning assessment between small stores and large anchor stores. Those massive tax increases are exactly what the Metro MVA scheme would have led to. They serve to remind us that transition to tax reform is just as important as the end state. It does not matter how equitable a reform system is if businesses go under and residents are driven out from their homes in the process of getting to that reformed system.

The Fair Tax Commission report convincingly documents the flaws in MVA: the instability, the unjustifiable administrative costs, the unfair location taxes tied to speculative real estate markets. I am proud to have been part of the team that halted MVA in Metro. We would have been taking one step forward in a wrong process and then, eventually, when the Fair Tax Commission came out with its recommendations, would have brought us two steps backwards. We would have started in a process that was wrong. Thank goodness we waited for the report to come out.

Likewise, equalized assessment—Metro could not explain equalized assessment but insisted we should have it anyway. We replied that a tax which cannot be explained cannot be fair. I am proud to also have played a role in halting equalized assessment in 1993. As the Fair Tax Commission report clearly indicates, equalized assessment would have been a dead end.

To resolve the assessment dilemma, the commission is proposing a new assessment system combining unit assessment and rental value. Whether this is the definitive answer remains to be seen. However, it is essential to move forward quickly on studies to show how this would work in practice. Whether it be in the Ontario budget or in some other announcement, I look forward to confirmation that the Ontario government will carry through with this work.

There is a second issue raised in the commission's report which has actually been less divisive in Metro. Indeed, if you look at the various submissions, there is a remarkable unanimity on the issue I have in mind, which is the issue of how schools are financed. As far as the residential portion of the property tax for schools is concerned, the commission is proposing that most of it be removed to be replaced with taxes better related to ability to pay.

The commercial-industrial part of the property tax for education would remain in place, but reassessed on a uniform rental value basis across the province. That step is likely to contribute in a major way to halting the shift of business activity out of Metro. Businesses are moving to parts of the GTA with much lower property taxes. We do not have a level playing field at the present time in Toronto.

The Fair Tax Commission recommended that the province actually take over commercial-industrial property taxes for schools, as Alberta has just done. This approach is generally referred to as pooling. I'm not sure you need to go that far. The key requirement is that wherever a business locates it should pay the same tax for education. If that is the case, perhaps the revenues can be left in the localities where they are raised.

1050

A third issue raised in the Fair Tax Commission report is a business tax reform. The recommendation advanced by the commission is to abolish the business tax, with its complex rate structure, permitting municipalities to recover the forgone revenue through realty taxes. We believe this is an appropriate direction in which to move. Uncollectible business taxes now result in write-offs for over \$1 million per year by the city of Toronto, as well as unacceptably high administrative costs.

To sum up on the subject of the Fair Tax Commission, the provincial government has an opportunity to achieve a breakthrough, solving problems that earlier governments were not able to solve.

I have to tell you that sitting as a resident of the city of Toronto and a taxpayer, I've watched over the last 10 years every political party talk about getting school board taxes off the property tax base, and in the last 10 years every political party has been in an opportunity where they can do that as a government. Not one party has done that, but everybody talks about how good it would be to somehow reform at least school board taxes and get that off the property tax base.

In conclusion, reform of the taxation system will improve the business climate and thereby reinforce job creation initiatives. I believe tax reform is an essential prerequisite for sustained economic recovery. The Fair Tax Commission has set out a general blueprint for assessment, education and business tax reforms. City council would strongly support immediate commitment by the Minister of Finance to further develop the commission's proposals. We look forward to hearing of your plans in the budget address or even sooner.

The Chair: Thank you for your presentation. We have about seven minutes per caucus.

Mr Turnbull: Perhaps, if you don't mind, Ms Disero, I will address my questions to Mr Tomlinson. I say that because I recognize that Mr Tomlinson is probably one of the most knowledgeable people on property tax assessment in Ontario.

Ms Disero: That's why he's here.

Mr Turnbull: I recognize it, and I say that when I explain why—

Mr Peter Tomlinson: You're much too kind.

Mr Turnbull: With respect to the Fair Tax Commission recommendations, I want to specifically talk about what is happening with the shopping malls on the periphery of Toronto, not in the city of Toronto at this moment but in Scarborough and North York and so forth. Is the move by the large anchor tenants to seek reductions in their assessment commensurate with the recommendations of the Fair Tax Commission?

Mr Tomlinson: No, it flies in the face of what the Fair Tax Commission says on page 710 of the report:

"Another issue concerns the allocation of property taxes within shopping malls. The current system of allocating property taxes according to actual rents favours the anchor tenants. In a value-in-current-use system"—which is what the Fair Tax Commission is proposing—"assessment would be based on the rental value of properties of that type and quality in the municipality, not on the actual rents paid on a particular commercial unit."

So within the commission's approach what you'd do is you would find freestanding department stores and look at the rents per square foot, freestanding small stores and look at the rents per square foot. Those would be much closer together than are the actual rents within a mall, where the large department stores, because they anchor the whole mall, can negotiate their very favourable lease terms.

You wouldn't have this kind of situation that is now happening where they're moving to reflect the actual negotiated rents within the mall. I don't know why the assessors have decided to do that this year, just at the moment when this report appears that recommends going in another direction entirely, but that's what has happened.

Mr Turnbull: The immediate effect is that some of these tenants, the small tenants, who are providing a lot of employment, have the potential for being driven out of business completely. Could you tell me the sort of increases that some of these people are facing, in percentage?

Mr Tomlinson: There are many of 400% or 500%. They've been historically assessed on a per-square-foot basis. If your store has 1% of the square feet in the mall, it will be responsible for 1% of the property tax, but a small store which has 1% of the square feet may easily have 3% of the rent, because it's paying a higher rent per square foot than larger stores. So if you allocate on a rental basis and those were the numbers, you'd be going up 200%.

Mr Turnbull: Have you got anything to suggest that these smaller stores use proportionately more services on a per-square-foot basis than the large stores?

Mr Tomlinson: There's no evidence I'm aware of that would indicate they do. The allocation of services among individual stores in a mall would probably be better represented by the square footage than it would by the rents, which have no relationship to public services at all.

Mr Turnbull: It seems to me there's an opportunity here. You and I have been through this loop before; this is how I know Peter Tomlinson on property taxes. I want to try and draw out questions to help the government, whose own Fair Tax Commission, which cost \$2.3 million to prepare, has the opportunity to do something, but you need to do something very expeditiously. After my questions, I hope you will draw Peter out on this particular subject, because small businesses are going to go bust.

Very typically, a small store might pay eight to 10 times more than the anchor tenant in a mall on a per-square-foot basis. Not only are they now being asked to pay that, which is something arrived at between them and their landlord, but they're now being asked through the tax system to pay multiples of the tax that the anchor tenant is paying, based upon the fact the assessment system is saying, "Okay, because you're paying less in rent, we're going to base the taxes on the rent you pay." This is going to drive the small tenants out. They cannot take 300%, 400%, 500% increases in taxes. I'm really saying that to you to help set this up. Peter, maybe you could just comment on it, or Ms Disero, if you want to comment on this.

Ms Disero: This actually was the major fight with MVA when the mayor led that charge. Certainly what you're saying is correct, and once you start driving out all the smaller retail stores, the assessment base within any municipality declines drastically. We're finding that in the city of Toronto. That's why we're trying to cut about 20% of our budget. Not because the cost of providing service is increasing, but because the number of people or the assessment pool is declining.

Mr Sutherland: I think the example Mr Turnbull is referring to is that this is the outcome of a seven- or eight-year appeal process. It has been quite ongoing. I just want to ask—and maybe it's not fair to ask specifically the city of Toronto folks about this—I wonder what your opinion is of how this would benefit, say, all of Metropolitan Toronto, because we certainly know from the MVA discussions, or when that was being assessed, that some people were going to get significant decreases, others were going to get larger. From your perspective—and maybe it's hard to ask for an unbiased perspective directly from the city of Toronto—do you see this as being much fairer for everyone across the Metropolitan Toronto region?

Ms Disero: Most definitely. I mean, particularly with the school board tax reform. Right now, almost 56% of everybody's property taxes goes into education. Taking that off the residential tax base certainly would cut everybody's taxes in half immediately. If you allow the municipalities to take the commercial-industrial taxes and put them back into their local municipality, and then use the income tax provincial grants to subsidize those

municipalities that don't have the commercial base that maybe the city of Toronto has, certainly it would make it fairer across the province, not just in Metro. Everybody in a commercial and industrial property would be paying an equivalent tax.

Mr Sutherland: Okay. Besides then taking the education portion off the property tax, what about the proposed recommendations just regarding how you do the assessments?

Ms Disero: That question you're either going to have to repeat to me, or maybe it's over my head somehow.

Mr Sutherland: They make recommendations to take it off the property tax. They also make recommendations about what type of form of assessment do you use. They propose, I believe, what they call a unit value assessment.

Ms Disero: Yes, the unit assessment.

Mr Sutherland: I'm just wondering what your comments are on unit value assessment as to its implications for not just the city of Toronto but what you think maybe for all of Metropolitan Toronto.

Ms Disero: I'll ask Peter to elaborate, but with the unit assessment, it's the amount of services that you use proportionate to the size of property and house rather than market value, and the fluctuating market value. But I'm going to ask Peter to elaborate even further.

1100

Mr Tomlinson: With the MVA debate, the impression got out erroneously that the city of Toronto would be harmed by MVA and everybody else in Metro would benefit, but that's actually not the case.

There were neighbourhoods all over Metro. There were neighbourhoods in North York, there were neighbourhoods in Etobicoke that were going to be harmed by MVA as well as in the city of Toronto. There were areas in the city of Toronto that were going to benefit at least from the 1984 MVA.

In Councillor Disero's ward 83% of the homes, I believe, were going to go down but they were still opposed to the MVA plan in Councillor Disero's ward because they knew that these gains could be short-lived. The system was so volatile that only a short time later they could be losing substantially, as in fact turned out to be the case when we got to the 1988 impact study and the numbers had turned around in that part of the city.

I think everyone in Metro gains from a rational, stable assessment system even though some people obviously are going to be paying more than they would on the first round of MVA. In the long run, it's a predictable system. You don't have the uncertainty; you don't have these unanticipated 200% and 300% tax increases that come with keeping an MVA system up to date, because the unit component of what the Fair Tax Commission is proposing in here stabilizes the system and makes it more predictable.

The Chair: Ms Mathysen.

Ms Disero: Sorry, Mr Woods would like to just add something.

Mr John Woods: Just further to the specific question, there would be an enormous simplification in the admin-

istration of assessment itself under the proposed system province-wide. There would be a substantial reduction in costs for the assessment program of the Ministry of Finance under the proposed thing. So there are substantial direct administrative benefits to be gained province-wide from what's proposed.

Ms Irene Mathysen (Middlesex): I'm glad Mr Sutherland did ask that question so that Mr Turnbull's social democratic leanings could be assuaged.

My question is in regard to page 6, and I just wonder if you could clarify something here. I understand the concept of leaving the education tax on commercial and industrial properties and pooling. You say at the top of page 6 that you think this might have some problems and suggest it might be possible for all businesses to pay the same tax rate and that the revenues be left in localities. My concern there is, might we run the risk of having situations where, like in the United States, you had rich boards and tax-poor boards in that respect?

Ms Disero: No. The reason why you wouldn't is because the money that you get through the taxes on the ability to pay, through the income tax system, would allow you then to subsidize those municipalities that don't have as significant a commercial tax base as a municipality in Metro, or the city of Toronto for that matter.

Mrs Mathysen: So just restructure the GLGs. Okay?

Ms Disero: Yes.

Mr Phillips: I appreciate very much the presentation and the new information that we've got here. Just so I'm clear on it, the first one on page 6, I gather that the implementation of the Fair Tax Commission reports, in your judgement, would mean lower business taxes, business property tax and commercial property tax in the city of Toronto.

Ms Disero: It would be spread equitably across the province.

Mr Phillips: It would be lower, though. You're saying your problem is that you're charging higher taxes.

Ms Disero: Yes.

Mr Phillips: It's helpful to know that's the result of it, because on the Fair Tax Commission we're kind of dealing with a zero sum here and it's like x amount's going to be spent, x is going to be raised by a commercial business tax, x by other sources.

Ms Disero: Sure. Okay. Peter wanted to add something to that as well.

Mr Tomlinson: The reason for that hunch that businesses throughout Metropolitan Toronto would benefit is this: The commission is saying reassess all commercial property in the province on a rental value basis and tax them all at the same rate and that rate would raise what is now raised by property taxes from commercial-industrial for schools.

If you look at the rental value of property in downtown Toronto and similar class A office space in the city of Mississauga, the rental value, and I'm talking about gross rents, may be somewhat higher in the downtown Toronto building or North York City Centre building or

Scarborough city centre, but today the tax is two or three times as high in Metro as it is in Mississauga. This is contributing to the flight of business out of Metro.

Mr Phillips: I understand that.

Mr Tomlinson: If you took it on a rental value basis, the tax would be virtually the same, so ours would come down, theirs would go up. That's the reason why we're anticipating that gain that you've referred to.

Mr Phillips: That's helpful. The second one is just that I think the Fair Tax Commission said that roughly \$3.5 billion of education funding is on the residential property tax. They're not saying that the taxpayers are going to get a \$3.5-billion break.

Ms Disero: Cut, no.

Mr Phillips: They're simply saying it will be raised in a different form, which I think is around a 25% increase in income tax levels. I gather that the city of Toronto has concluded from its analysis that this would benefit the residents of Toronto. In other words, they would be paying less of that \$3.5-billion tab.

Ms Disero: Yes; 56% of the property tax paid by residents in the city of Toronto now goes to school boards, roughly—

Mr Phillips: No, I understand that completely. I'm just saying that I gather from your report that you've also said that personal income tax raised in the city of Toronto—under the Fair Tax Commission's report it will go up less than the property tax that the city of Toronto residents are paying.

I gather you're here speaking on behalf of the residents of Toronto and if that's the case, then I gather once again the beauty of this recommendation for the city of Toronto is that people outside the city of Toronto will pick up a larger share of the cost of education.

Ms Disero: If their ability to pay is greater, yes, and that's the city of Toronto position and that's what we believe, that it should be through ability to pay and, yes, it would certainly benefit the residents of the city of Toronto in most cases.

Mr Phillips: That's helpful to know.

Mr Tomlinson: We did just the calculation you're referring to in our report to city council. We worked out our share of personal income tax province-wide and assumed that would go up to replace that \$3.5 billion, compared that with our residential property tax today. Overall for the city it was roughly break-even; there would be some individuals who would be better off and some would be worse off and then, as Councillor Disero said, there's an overall gain in equity because it's ability to pay. So that plus what happens on the commercial-industrial side means the city's certainly better off.

Mr Phillips: That's a useful study to have. Thank you.

The Chair: Mr Crozier, you have a couple of minutes.

Mr Crozier: I'll only take a couple, thank you. I just want to comment on two items on page 6. One is that I certainly agree with your comment about business tax. There should be some method by which municipalities

can collect business tax without going through the court, and I appreciate that.

The other is a disagreement I have with you and I suppose it's because I come from a community of 14,000 people, which is a small urban community, and I represent a significant rural community. I am sure that pooling should be the thing to do when it comes to the industrial tax because it then would prevent the poor board-rich board situation.

If I may say, on the other hand, I appreciate what it is for our young people, but I think the city of Toronto and large urban centres benefit from the small centres, because our best students have to move to the larger centres in order to get employment and consequently I think it makes your community better too. I would ask that you give the rest of Ontario a break and agree with the pooling aspect of it and then we'll love Toronto much more than we do now.

Ms Disero: Thank you for your comments. Certainly we do appreciate the skilled workforce that comes to the city of Toronto from your community and I'll bring that message forward to the mayor.

The Chair: I'd like to thank the city of Toronto for its presentation before the committee this morning.

Ms Disero: Best wishes on your deliberations.

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ONTARIO SEPARATE SCHOOL BUSINESS OFFICIALS' ASSOCIATION

The Chair: The next presenters this morning are the Ontario Separate School Business Officials' Association. If you would please come forward, make yourselves comfortable and whenever you are ready you may please proceed. If you would identify yourselves for the purposes of the committee members and of Hansard.

Mr Tom Kelly: We thank you for the opportunity to present to you on behalf of all the members of the Ontario Separate School Business Officials' Association.

I am Tom Kelly. I am the current president of the association. I am the superintendent of business and treasurer of the Lambton County Roman Catholic Separate School Board, which is in Sarnia. With me today is Grant Andrews, who is the associate director of business affairs with the Durham Region Roman Catholic Separate School Board. He's the past president of our association. Pete Derochie is the superintendent of business and finance with the Simcoe County Roman Catholic Separate School Board and he is the vice-president of our association.

Going by your previous discussions, you may want to get into some of those discussions with us. We've addressed our presentation today to some more current, immediate problems, but we'll be happy to entertain some of those questions along the lines of the Fair Tax Commission as well.

We accept at the outset of our discussions that provincially we have some serious financial difficulties. We want to identify for you today certain cost increases that are impacting upon education in the current year that's before us. These cost increases should be funded provincially.

Your response to us will likely be that these are real costs and that they ought to be funded provincially. However, there are no new funds available to fund these costs and you probably will also tell us we'll be fortunate if we can receive the same amount of grants as we have last year. In that statement there's an impact of great concern to us.

We make our presentation from the perspective of assessment-poor boards, not just separate school boards, because there are many assessment-poor public school boards. We would like to emphasize that this issue of assessment-poor boards is what we're trying to deal with.

The issue we're going to talk about today, as I said, is, apart from the education finance reform project and the Fair Tax Commission—we all accept with the major stakeholders that the system is broken and does need to be fixed—we would like to address the immediate problem of the equitable distribution of the current grants as they exist for 1994 and potentially into 1995 until these new initiatives are implemented.

If the announcement were made today that the transfer payment to education for 1994 would be frozen at the same level of 1993, it would be reasonable to assume that maintaining the same grant transfer package and the same grant calculation package would be fair and equitable.

This in fact is not the case and is the essence of our presentation. We must convince you that the expenditure ceilings and grant calculations must be adjusted in order to obtain a fair distribution of the revenues and an equity of burden on the local taxpayers. We hope, through some of the following examples, to describe the essence of this equity problem.

I won't take you to chart 1, but in chart 1 is an extract out of the Ministry of Education document entitled Education Funding in Ontario 1993...A Description of the Education Funding Model. The highlight of this document is, in essence, the grant equity calculation package that's built into that. At line 4 of that item, you'll see a calculation that provides for an equalized mill rate to be provided across the entire province, which has the effect of treating all ratepayers equally and have them all have to raise the same tax burden.

Chart 2, which is a couple of pages back—I'm going to highlight some of the things that are in there. We have provided some 1994 budget projections of cost increases that are going to be faced by school boards.

On the salary component, which is about 75% to 80% of a school board's budget, the social contract is in place. However, being that it is in place, there are still increment patterns that are attributable to employees, largely teachers and other employees. Those increment patterns have to be attributed to the social contract. That increment pattern for 1994 has to be paid to the provincial government as a settlement of the social contract, so that is a new cost that school boards are going to be facing in 1994.

Above and beyond that, there is the other 20% of the salary budget that belongs to employees under the low-income cutoff provisions. By and large, those employees, where they had collective agreements in place that

provided for increases or are negotiating increases, a lot of cases around the inflation rate, are also entitled to their increments as well as these increases. It is estimated that, on average, the boards could be facing a 2% to 3% increase to pay for these parts of the contract.

A hidden area of the budget which is having a considerable impact in this current year is benefits. We have large increases in Canada pension, unemployment insurance, workers' compensation, just in the indexing of the salary calculations that are used to do that.

Beyond that we have large increases in drug and dental plans. We have figures from our boards: 20%, 30%, 40% increases for usages on these plans and the cost of the drugs. As you know, last year the provincial sales tax was implemented on many of these benefit plans. Those are going to impact for the full year of 1994 on school boards.

We've had announcement of large workers' compensation rate increases: 33% over three years, 15.5% this coming year; large unemployment insurance rate increases, 7.5%.

Under the supplies section, we've got the normal inflation that's going on many of the products but we also have in a lot of localities large increases in utility costs.

By and large, all these items are beyond the control of school boards, and as we sum them up on a total per-budget basis we see that even despite all the things that are in vogue, the budgets will probably rise in the neighbourhood of 2.5% for 1994.

This has a significant impact when you go back and consider that if the grant transfer package is frozen and school boards have to face these cost increases, that is going to fall to the local ratepayers. Unless the grants are distributed fairly among all those boards, we're going to get a disproportionate share.

Assessment-poor boards are most detrimentally affected by this. We would like to demonstrate to you in a couple of the other charts that increasing the expenditure ceiling and redistributing the existing grant package will enable all boards locally to pay the same amount of money but without compelling additional money to be paid by the province. There will be some real horror stories developing in local municipalities if that is not the case.

Chart 3, which you can look at at your leisure some other time, shows the impact of freezing the expenditure level at last year's grant ceiling but while the boards are facing these increased costs and the grants are frozen as well.

The impact of these assumptions is devastating. You will note that a very assessment-poor board, with its 2.5% budget increase, is actually going to face a 16% local mill rate increase.

An average assessment board is probably going to face a mill rate increase in the neighbourhood of 5.7% and a very assessment-wealthy board could have an effect of only 3.2%.

With this 2.5% budget increase, an average across the province should be that every board pays about 5.7% in

this model. It's unfair to have some boards having to pay as much as 16% and some only paying 3.2%.

We're very much concerned and we would like to convince you that, albeit the total grants available may be frozen, they should be redistributed fairly among these boards, otherwise we're going to have the assessment-poor boards very negatively affected and pushed against the wall to a point where they may not be able to cope with some of the budget measures and we're going to have assessment-wealthy boards in this time of difficulty being positively affected and having to pay less than the average across the province.

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If, on the other hand, finances are so bad that extractions have to occur from the grant transfer package and they are extracted from the ceiling, this would make it even worse. We've provided for you in chart 4 an example of how taking these grants, the same amount of dollars as last year but redistributed equally, all boards would be unable to pay the same thing.

That's the essence of our presentation today for the 1994-95 budget years that we're facing. We're available for any questions you may have for us.

Mr Sutherland: Just on your charts there about increased costs for the upcoming year, utility costs are at 8%? That's due to natural gas cost increases?

Mr Kelly: Yes.

Mr Sutherland: Okay, just a couple of other things. Then I take from the essence of what you're saying that you support many of the recommendations of the Fair Tax Commission that deal with changes from the property tax base and in terms of what it's saying about how funds should be distributed for education costs?

Mr Kelly: Yes. I'll take turns answering. Generally we haven't studied them in great detail, but we have been through them. I would say, by and large, we're in support of the recommendations that are in the Fair Tax Commission.

Mr Sutherland: Okay. Earlier—and I'm not sure if you were here or not—we had the School Bus Operators' Association of Ontario talking about some changes that it wanted. We also got into some of the discussion about what efforts are under way to reduce costs and what efforts are under way between separate school boards and public boards to do as many of the non-distinctive features of the two systems, to coordinate them and to reduce costs. We specifically talked about efforts on busing.

I was wondering, from your organization's perspective, if you could give us some sense of what some of those efforts are, what other things the provincial government could do, either through budget or just general policy changes, that you believe would help support those initiatives to have more cooperation between the two board systems to reduce overall costs.

Mr Kelly: Pete Derochie would like to respond to that question.

Mr Pete Derochie: I can give you an example certainly of what's going on in our community of Simcoe county and Muskoka, which is indicative, I think, of

what's going on in a lot of areas in the province.

Obviously the province, through the funding mechanism, has made transportation a target. They've provided incentives, both in lowering the grants for transportation and moneys through restructuring initiatives for boards to undertake the initiatives that are required. I'll use Simcoe separate as an example of what's going on out there as a model perhaps, to give you some idea that there are successes, and it is indicative of a number of other initiatives boards are looking at.

We presently have a task force between the two boards. It parallels much of what we read in last week's paper with the hospitals and the municipalities and the Metro school boards that are looking at ways to share services, reduce expenditures and become more efficient and effective.

We've identified a number of areas, and obviously the most significant area is transportation. Through the restructuring grants that were provided to school boards, we are in the process of implementing computerized transportation systems, which is basically going to be one system administered by one board which will allow the two school boards' needs to be sort of mapped and mirrored together so that optimization of route management has occurred. We're developing that cooperatively, together, and we'll be involving our local association of school bus operators so that they understand how that impacts them.

We're very fortunate that we have the local association in our community. We have documentation that the bus operators' association is prepared to work cooperatively with boards on these initiatives. We're expecting a minimum 10% transportation savings over the course of that project.

The unfortunate part—and this is where the community and perhaps yourselves get a little impatient—is that shift. You can imagine two boards that had so much autonomy and basically feared each other. Breaking down the barriers to work together takes some time. Then, once we have that environment, that culture cultivated with which we've been successful in Simcoe county, you have to then get your staffs to work and initiate the projects and planning that are required.

That has taken us about a year and a half, and we will be in a position to realize the fruits of those endeavours in the summer/fall of 1995. So we've been basically two budget years from the restructuring grant announcements to when we're actually going to realize the benefits. That's just an idea of what's going on on that one initiative.

Mr Sutherland: Just one point of information. Of the total costs of a school board, what would busing be as a rough estimate?

Mr Derochie: It depends on the board. It depends on whether you're rural or urban.

Mr Sutherland: For a rural board like that.

Mr Derochie: For Simcoe separate, our transportation costs about \$8.3 million of a \$94-million budget. It's less as a percentage for, say, our coterminous public board because they're more urban than we are.

Mr Jim Wiseman (Durham West): A really quick question, and Mr Andrews will be able to answer this, I think. But what are the Metro board able to offer their students? I'm looking at the recognized ordinary expenditure-per-pupil level.

If my memory serves me correctly, for the separate board in Toronto, I believe they spend about \$1,200 and some odd dollars above that, and for the public board in Toronto it's somewhere in the neighbourhood of \$2,500 to \$2,600 above that. In Durham it's \$895 roughly, I think, for the public board and \$295 for the separate board.

What are the Metro students getting, for that extra money above that grant, that your students in Simcoe and your students in Durham are not getting, and how significant an impact is that on their education?

Mr Grant Andrews: Wow. Actually, your figures are fairly close, by the way. The 1993 figures for Metro at the elementary were \$2559, and at the secondary, \$3423 above the approved limits. For the Durham separate board, we were \$283 per pupil elementary and \$455 secondary. What they're getting for all that extra money, actually, they'd be better to answer than I.

But in terms of what we're not getting, one of the problems we've had is we cannot pay our employees comparable wages and, as a result, we've had three strike votes in a row from our secondary school teachers, who feel that they should be paid comparable wages, either close to what Toronto's making or even their public school counterparts, because obviously we're paying a fair bit more. Our class sizes are larger too, because with a much more limited assessment base, we cannot live at the same level as they do. We attempt to live within our means.

As I'm sure you're aware, one of our sister boards, although spending much less per pupil than their coterminous board, is in a bankrupt state, even though they're spending much less than their coterminous board. They don't pay as much to their employees as their coterminous board either, but the gap perhaps isn't as large as it is in Durham.

In terms of our support staff, of course, we're much leaner. If you take a look at the Ministry of Education figures, you'll see that our administrative costs all tend to be much lower. That means we can't provide the same kind of support. In terms of programs, of course, we try to minimize the impact there. I won't try to measure what that impact will be, but certainly it does cause a great deal of difficulty for a low-assessment board such as the Durham separate school board.

Mr Derochie: I'd like to make an additional comment, if I could. It's hard to say what our neighbours are spending when we don't have access to their records and their significant programs. But I think one has to ask oneself, are the students in those comparable situations provided the same opportunities? Do dollars provide additional opportunities to one set of students who happen to attend or live geographically in a different area? Do more dollars provide more opportunities? I would propose that the logical answer to that is yes. Therefore, if that's our feeling and our belief, we're

obviously flying in the face of one of the basic principles of the education funding model, that is, equality of opportunity.

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Despite the fact that we can't today answer your programs in terms of the specifics, I think you have to look at it in terms of the opportunities in a more general nature. We would propose that there is not equality of opportunity because of the funding model being what we perceive as broken.

Mr Phillips: I appreciate your presentation. The kind of fundamental message that comes from an across-the-board grant allocation on old formulas results in quite a different impact locally on the mill rate. That's your short-term fundamental message to us today. Is that right?

Mr Kelly: That's correct. The way the grant system works is because of the fact that you raise the expenditure ceiling, people feel that's acknowledgement that you're going to have to pay more grants, but that in fact is not the case. It simply recognizes costs to have grants so that if you do recognize those costs, then we get a fairer distribution of the grants rather than freezing them at the levels they were in 1993.

Mr Phillips: Could you help us out on just where things are right now? You're awaiting the grant announcements, are you? Have you been given any expectations of what they will be and when they will be forthcoming?

Mr Andrews: Last year there were certain principles announced in February 1993. We had hoped that similar announcements would be made this February and the actual details are usually distributed in March. That's what we would expect.

We are of the belief that the ministry staff are aware of the problems in terms of the existing funding model and that they want to work as best they can within the constraints with which they have to work, but of course we realize that the decisions are made at the political level and not at the staff level.

Mr Phillips: My recollection is that grant announcements were made normally in November, December.

Mr Andrews: I think what you're making reference to is the global picture in terms of the change in the total transfer payments.

Mr Phillips: That is what I'm referring to. There's been no announcement on that.

Mr Andrews: Yes, there has, actually. The transfer payments were announced for a three-year period. Last year it was zero and this year it's zero in terms of increase.

Mr Phillips: Everyone's working on just the assumption that this is what it is.

Mr Andrews: On a global basis.

Mr Phillips: Okay. What's been the actual impact on your funding? If zero comes from the province, have you kept your spending to zero or has there been a shift of the cost of education more and more on to property tax?

Mr Andrews: The latter is true. Two things have happened. There have been significant spending cuts.

Some programs have been lost and staff have been reduced. On the zero, by the way, that's a little bit misleading. If the total payment is zero in an area where enrolment is growing, the per-pupil amount actually is decreasing. For example, if there's an increase in enrolment of 5% and you pay out the same amount, the impact on a per-pupil basis is a 5% decrease. Actually, if you look from 1992 to 1994, you're talking about a 5% decrease on per-pupil transfer payments.

Mr Phillips: Can you give us any indication of what you're spending has actually gone up? I'm just trying to get a feeling, as we talk restraint here, is it actually being translated against the property tax or have you seen significant increases in property taxes?

Mr Derochie: I can give you certainly our example for Simcoe separate which would seem to be an average board, but just if we had done nothing, left everything, what I tend to do is take the 1994 factors when they come in and I'll run them against the 1993 and say, "If we had left everything at zero, what would have been the tax impact?"

I've only been in the school board business six years, and in each of the last six years, within that calculation, had we left expenditures as they were the previous years, there would have been a natural increase in the mill rate just attributed to the standardized mill rate increase and the change in equalization factors that occur.

Despite what's happening on the expenditure side, just what happens within the funding model drives up the local tax bill. The boards recognize that there is that overgrant or overceiling expenditure that the boards are incurring. Some of them are local decisions, some of them are as a result of inadequate funding, but the natural trend in the funding model over the last number of years has been to increase the local taxes. It's a smoke-and-mirrors kind of situation. It's not very transparent to the taxpayer. We'll take credit for perhaps 10% of the mill rate increase, but there's also been a significant burden placed as a result of the actual mill rate assessment equalization factors.

What tends to happen, and that's the problem of an assessment-poor board, is the province in November will announce, say, a 5% transfer payment increase but when it all tumbles out in March there might be an 11% to 14% increase in the standardized mill rate. For an assessment-poor board which receives significant, higher grants, that 11% increase on a smaller share of their budget, a smaller piece of the pie, is magnified. That's the problem assessment-poor boards run up against now.

In terms of the expenditure side of your question, I think boards have been fairly successful to reduce their expenditure level increases below either growth or inflation or both factors combined. There have been successes. There'll be exceptions, but I would state that there have been successes.

Mr Kelly: Maybe if I could supplement that. There is a concern going into this budgetary year that was not there in others. As Peter and Grant have said, boards are making cuts to live within their budgets, but in this upcoming year and through the term of the social contract all the savings that might have been out of reducing

programs and reducing staff, that might have gone to balance the board's budget, now under the social contract must be attributed to the social contract.

The board now has virtually lost control over 80% of its budget as far as an area to cut to balance the budget. If we don't get realistic transfer payments and grant ceilings, you're asking them to find all the money they need on the other 20% of the budget, a lot of which are utilities that are uncontrollable costs as well.

Mr Phillips: I understand.

Mr Gary Carr (Oakville South): I had a question regarding the social contract. I supported the government's theme of cutting back and I think a lot of people did. It was difficult to talk to teachers and say, "Yes, you should be cut back 1%, 2%, 3%," whatever it was.

The problem we had in the amendment that we introduced was instead of having the days off as a result we said, "Whatever the cut is, 1%, 2%, 3%, you get cut—nurses, doctors, teachers—but you don't get the time off." Education wasn't as bad, but in health care—for example, before Christmas I got a call from a lady who had breast cancer and after a certain date they weren't going to have any more operations and she didn't make that date.

We had to get involved, and we're not talking education where education's important with kids, we're talking about a life-and-death situation with breast cancer. We intervened and she got in and presumably nobody else got bumped. But what happened with the social contract in the way it was done, while we agreed with the theme, we really put a tremendous burden on people and I use that as one example.

If you had been involved and had the authority to do it, would you have done it the way it was done by the government or would you have done it with the cuts? I know 80% of your costs are making those cuts, but not giving the days off. Have the days off created problems or have you been able in the education sector—because I want to tell you in the health care it was a tremendous nightmare—but in the education sector, with PD days and so on, have the days off been a problem for you?

Mr Kelly: I'll give Grant a chance to gather his thoughts, but I'll put an initial thing in. A lot of the concern I heard expressed around the executive council table was, at a time that we're moving into a lot of technological change and new things that have to be done in the education system, these days are going to be taken off or have been taken off professional development days.

If there's anything the teachers and the staff need now it is more professional development on the new methods of computer education and all the technologies to become professionally updated themselves to pass it on to their students. That's the one major thing I heard from the business perspective going around executive council. Do you have anything to add?

Mr Andrews: I sat in on the provincial social contract negotiations on behalf of the Ontario Separate School Trustees' Association, so I'm aware of some of the difficulties that did exist and continue to exist. I guess you have to look at it in—the goal was to produce

permanent reductions. The days off won't do that but the second, the agreement that was made between the government and the teachers, I guess ensured that there would be long-term permanent savings. The teachers really don't want unpaid days and they're forced to negotiate for a change in the pupil-teacher ratio.

What I see happening is that there will be an increase in the PTR across the province and it will be sooner rather than later and the cost of education will be reduced, and that was the goal, as I understand it. It's not without a great deal of pain and it's not going to be easy. There may be a signed agreement at the provincial level but there's still a lot of work being done at the local level and will continue to be, and still problems being unearthed. But in terms of a permanent reduction, that was probably the way to go, although I didn't like it.

Mr Carr: With regard to the funding issues, you know this government said in the last election that it would increase the funding at the provincial level, and I suspect the next time all six members sit on a platform their opposition will be one of the major promises that they broke because a lot of people really believed them, that they were going to increase the funding. Being a socialist government, they figured okay, that's one thing they might end up doing. Of course, it's gotten worse.

I sympathize in one way, and I wanted to ask this of Betty when she was in because politicians being what they are, if we move it to the income tax system or whatever, the other politicians, whether they be trustees or municipal politicians, will jump in. If we do move it, my fear is that your predecessor, Betty, will come in and say, "All of a sudden the big cost has gone into the education system. There's now room for us as municipal politicians and trustees to jump in," and the bottom line is we have a net increase in taxes. One of the ways to deal with that, which is what they did in Britain, is that when they moved it off the property tax they then put caps in place.

How do you see it working if in fact a lot of the education goes off the property tax? How do you see us avoiding municipal politicians or trustees jumping in and saying, "Okay, now they're paying that portion of it and we can use some of the property tax," whether it's Alan Tonks saying it's a good cause for capital projects or whatever? Do you think the provincial government should put caps on municipalities and say, "Okay, trustees, you can no longer have any more taxing ability"? How do you see that working?

Mr Andrews: I don't want to really try to deal with the municipal issues other than the fact that I was also involved with the Fair Tax Commission property tax working group and a signature to the minority report. Your earlier question about support for the report of the Fair Tax Commission, much of it is consistent with what was in the minority report and naturally I would support that.

But one of the concerns we had in our discussion was the very issue that you've raised. Historically, if you go back, you'll find that indeed has happened in the past, because there was a time when the education component of the property tax was reduced but the home owner

didn't see it because the municipality moved in. I recognize that is a problem but I'm not about to identify a solution for municipalities. I've got enough problems with school boards.

Mr Carr: It's a big, big issue, that's for sure. Thank you very much. It was a good presentation.

The Chair: I'd like to thank the Ontario Separate School Business Officials' Association for its presentation this morning. This committee is recessed until 2 pm.

The committee recessed from 1144 to 1413.

ONTARIO CHAMBER OF COMMERCE

The Chair: Our first presenter this afternoon is the Ontario Chamber of Commerce. Make yourselves comfortable and proceed whenever you're ready.

Mr Ted McCollum: Good afternoon, Mr Chairman, ladies and gentlemen. My name is Ted McCollum and I'm here this afternoon to deliver the chamber's pre-budget submission. I'm the treasurer of the Ontario chamber. Mr Joe Couto is our policy coordinator, and Mr Don Eastman is a member of our board of directors.

The 65,000 members of the Ontario Chamber of Commerce regard the upcoming provincial budget as once again critical to the economic and social future of this province. We do not hide the fact that we've strongly disagreed with the current government's three previous budgets. These budgets have reinforced the tax-and-spend cycle, exacerbating the fiscal problems facing Ontario.

We remain hopeful, and from Mr Laughren's recently reported remarks, perhaps cautiously optimistic, however, that the harsh lessons of the last three years combined with the fiscal realities of today have taught this government that it cannot continue along the same course. The government of Ontario cannot continue to impose more taxes and more regulations on the businesses in this province, because every dollar that is taxed away from a business, either directly or indirectly, eliminates jobs. We need jobs and we need private sector jobs in the province of Ontario. That is an economic fact.

We must see a change in the mindset that treats profit as a dirty word. Profits are what create growth. Profits are used for investment, for equipment, for training and, most importantly, for jobs. Without profits there are no jobs, as we can see, there's no economic activity and there's no tax stream to sustain the social programs and other government spending.

We continue to encounter a mindset which treats business prosperity and social programs as mutually exclusive. On the contrary, it is business creating private sector jobs which generates taxes, taxes that pay for our vital social safety net.

We implore this government to adopt a fiscal strategy which helps business create these jobs, to ensure Ontario's economic prosperity and social wellbeing well into the future.

It is imperative that the government commit to no tax increases or no new taxes in the upcoming budget. When we appeared before this committee last year, we warned that increasing taxes would not solve the government's revenue problems. We said that Ontarians had hit a tax wall, the point at which tax increases actually have a

negative effect on tax revenue, and we cautioned that increased taxes would destroy jobs while fuelling the underground economy.

As we predicted, despite a huge tax increase, revenue projections have come in significantly below the Finance minister's forecasts and it's clearly time for the government to rethink its approach to taxation.

Revenue is not the problem; expenditure is the problem. There is no more room to move on taxes. Every new tax is a blow against the fragile economic recovery which is currently under way.

The Ontario chamber has frequently pointed to the need for expenditure re-engineering, not just expenditure cuts, as critical to achieving a balanced budget. We reiterate our call for comprehensive, independent, value-for-money audits on current and proposed programs. In addition, we recommend:

- (1) Greater emphasis on making consumers aware of the real costs of health care. We recommend that a semiannual personal health services statement be issued to each taxpayer to raise awareness and decrease fraud.

- (2) Rationalization of ancillary services in education, to move a greater percentage of the education dollar from the boardroom to the classroom.

- (3) Social programs based on self-dependency rather than social dependency. Programs can be re-engineered to encourage work transition, to encourage part-time or lower-paying, full-time employment with government supplementing shortfalls to social service support levels.

- (4) Consolidation of government services, in infrastructure, in buildings and in administration in local areas would reduce overhead expenses and share administrative and ancillary services.

- (5) A specific plan to significantly reduce direct government labour costs, including tighter controls on the use of outside contractors, an immediate hiring freeze and restrictions on wages, overtime and other employee-related expenditures.

There remains a strong perception among most Ontarians that there are simply too many government employees. The government has, to some extent, recognized this in initiating the social contract process. However, we were disappointed that the so-called savings came not directly from the Ontario government itself but from the broader public sector—cuts to hospitals, school boards, municipalities and teachers' pension funds—in many cases transferring, not eliminating, costs.

While these steps may have been necessary, they are only a small part of the problem. This approach does not address the fact that the government is still spending too many tax dollars on its own operations. Redundant studies, unnecessary committees, duplication of services, wasteful paperwork, layers of bureaucracy and hollow consultations are examples of government needlessly spending money on itself.

As business has done over the last several years, the government must embrace and aggressively adopt the concepts of total quality management and empowerment, to reduce costs, improve efficiency and enhance service.

After last spring's budget, the Finance minister was quoted as saying: "I really believe the bulk of the move has to be on the expenditure side. You can only raise taxes so much." We hope the minister remembers these words in his upcoming budget.

We've been asked by this committee to take a few moments regarding the final report of the Fair Tax Commission. The Ontario chamber is still reviewing the many recommendations and hopes to provide the Finance minister with more extensive comments in the near future. However, we must reiterate our concern that the commission failed to address the key issue, which is the overall level of taxation.

It is frustrating for business to see that the Fair Tax Commission was essentially oblivious to the link between the tax system and the economy and that the way to generate higher tax revenues is to promote a vibrant economy, driven primarily by private sector jobs and investment. Taxation policy must be adjusted to encourage job creation and hence more tax revenue, even if at a lower tax rate.

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We do support some of the Fair Tax Commission recommendations such as harmonization of the provincial sales tax with the federal GST, which would significantly reduce the paperwork and cost of compliance for taxpayers. We urge the government to act immediately to harmonize the PST and GST.

Unfortunately, the report also contains many recommendations which, if implemented, would negatively affect business in this province, and with that, the economic recovery and the growth of private sector jobs. We urge the government to be very careful on the issue of Fair Tax Commission recommendations. Businesses in this province simply cannot afford more taxes, regardless of what they are called and how they are collected.

When the standing committee on finance and economic affairs looked into the issue of the underground economy last October, we submitted that an increasing amount of economic activity was going underground to escape taxes and regulations. Many of those participating in this underground activity feel it is a matter of survival: Either avoid paying taxes, passing on the savings to customers, or lose those customers to competitors and go out of business.

It is a commentary on our level of taxation that many normally law-abiding business people have begun to resort to this type of activity as a means of survival. The government's response to this situation has been to emphasize enforcement, instead of tackling the real problem. In other words, the government persists in trying to treat the symptom and not the cause.

We find it exasperating that the government continues to refuse to even acknowledge that Ontarians are over-taxed, instead choosing to tinker with the collection system. Collection is not the main problem. The amount that is being collected is what is driving so much of our economy underground. As well, growing distrust of the way tax dollars are being spent by the government is further fuelling the movement towards tax evasion.

Again, government waste and the perception of widespread government waste is a critical issue. As long as businesses and individuals continue to see the government spending money needlessly, especially on itself, the underground economy will thrive. We do not condone this activity, but it is essential that the government address the root cause, not simply paper over the symptoms.

The most critical message we can leave with you is the concept of sustainable government. A government which is viable and sustainable into the future is directly tied into the health and vitality of the private sector, which ultimately pays the taxes that make the public sector possible. Hopefully, we all agree we cannot have a public sector which is larger than the ability of the private sector to pay for it, yet this is precisely where we are today.

The Ontario Chamber of Commerce believes that the province has come to a fork in the economic road.

We see our economy doing better in 1994 than in previous years, thanks to a more robust US economy and a restructured, more competitive private sector here in Ontario, particularly in manufacturing. We are confident that Ontario companies will continue to spend more on new equipment, more on training their workers and more on becoming more competitive. We are also hopeful that the increase in exports will result in more consumer confidence and more consumer spending in the province. Even a modest growth in the economy of, let's say, 3% would be a welcome relief to our members.

As far as the government's role in our economy is concerned, it is our opinion that it cannot maintain a business-as-usual attitude during this modest recovery. We hope it is clear to the government that deficits are nothing more or less than deferred taxes and that what we need is a sustainable level of government.

The government itself has admitted that it simply cannot continue to grow without serious economic consequences. The attempt to spend our way out of the recession has only resulted in double-digit unemployment, massive deficits, a spiralling debt and a negative business environment that benefits our competitors, the competitors of businesses in the province of Ontario.

It is simple economics that government jobs do not generate new wealth but simply absorb taxpayers' money. Ontario needs entrepreneurs to invest and commit their skills and drive this province's economy. We agree with the Premier when he states that his government's top priority is job creation. However, we must clarify: That is job creation in the private sector. More government-funded jobs will only compound the deficit problem, not solve it.

The Ontario Chamber of Commerce recently surveyed its members through local chambers of commerce and boards of trade across the province, asking which issues they felt were most important for ensuring economic growth in Ontario.

The number one issue of importance to Ontario's business community is the size of the budget deficits, considered a major obstacle to job creation. A balanced operating budget must be a primary objective for the

government. We submit that the upcoming budget should clearly state this goal, with a specific time frame for achieving that goal.

Our members often express their frustration, not only with the size of the deficit itself but with the government's continued insistence on using creative accounting methods to produce fiscal numbers that we quite frankly do not believe. We have continuously asked for a clear set of books by which to judge the fiscal health of the government and of the province of Ontario, and we're still waiting. Even the Provincial Auditor has been critical of the way Ontario's financial picture has been represented. Naturally, bond rating agencies and potential investors are not impressed either.

What particularly troubles the Ontario chamber is that the government seems to believe that a deficit of under \$10 billion can somehow be termed a success. Not only is this detrimental to the economy, but it also leads to a budget process whose primary objective is to present the deficit below this magical level rather than stating the true bottom line. The Ontario chamber believes that a clear set of books is essential if the government is sincere in winning back the confidence of the people of Ontario as well as the trust of potential investors from outside this province.

Let me point out that on the night of last spring's budget, the Ontario chamber calculated a deficit of \$11 billion based on the limited information contained in those budget documents. As you know, that figure turned out to be much more accurate than the official projections. It is our contention that if we were able to calculate an accurate deficit figure based on such limited data, then the Finance minister should have been able to do so as well.

We refer you to addendum A at the end of this submission, which is our assessment of the government's current fiscal situation. We have attempted to provide you with the factual numbers as we best can, and have attempted to be conservative in our estimates.

We are presenting you with this as a challenge: Please show leadership. Be honest with the people of Ontario. Deal with the deficit issue by exposing it clearly and developing a plan to eliminate it. We implore you to put fiscal integrity above political posturing. Tell us the truth so everyone has the proper knowledge to develop workable economic strategies.

In conclusion, the Ontario Chamber of Commerce is committed to working with all stakeholders to improve our economy. But let me be frank with the members of this committee. We understand that you are elected officials and that an election is approaching. The temptation to try to be all things to all people must be very strong. However, we believe that Ontario's economic recovery is too important to be at the mercy of politics. The Ontario chamber believes that the upcoming budget must be based on common sense to aid the economic healing of the province of Ontario.

In summary, we urge the government to commit to no increases in direct or indirect taxes; to set out a specific time frame for a balanced operating budget; to provide a clear set of financial statements; to reduce direct govern-

ment expenditure by streamlining and downsizing the bureaucracy, empowering employees and eliminating waste. We encourage you to harmonize collection of the PST and GST at the earliest opportunity, and to work with the business community to create a climate to create private sector jobs.

We urge the government to lead Ontario out of these difficult economic times and not to hamper our recovery with more borrowing and more spending.

All of which is respectfully submitted by the chamber and our president, Mr Stu Verge, and our executive director, Mr James G. Carnegie. Thank you.

The Chair: Thank you very much. We have five minutes per caucus. We'll start with Mr Phillips.

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Mr Phillips: I very much appreciate the chamber's presentation. It's thoughtful, as usual. I'd make one comment and then ask a question.

I think your exhibit on page 9, "Restated Deficit," without getting into detail, is probably not far off. I haven't looked at the numbers in detail. I can assure you that we are working—at least the Liberal caucus is, and I think the Conservative caucus is as well—to get the books reported in a way that gives a fair statement. I hope that will come sooner rather than later, although the indication we had from the government yesterday is that they don't plan, with this budget, to incorporate the Provincial Auditor's recommendations; they plan to do it six months or a year from now, which I think is a big mistake.

Mr Sutherland: September.

Mr Phillips: I think September is longer than six months. So in this budget we will not see what I would regard as a proper disclosure of the finances of the province, but I think we can get around that. As I say, I appreciate your work on that.

My question, though, is whether you can be helpful to us on the revenue side. A big problem that we see is that somehow or other revenue is just simply not coming in to the province anywhere near what one would have expected on the old basis of looking at it.

As we said to the Minister of Finance yesterday, taxes have gone up \$3.5 billion in the last three years. You would've normally expected tax revenue to go up \$3.5 billion and tax revenue has actually dropped by \$2 billion. We are seeing a very profound change in the economy that cannot be explained on any normal basis. I wonder if the chamber and its members can give us any insight into what's causing this almost inexplicable revenue problem?

Mr Joe Couto: I think it's been very clear to us as we've surveyed our members on the underground economy and their thoughts on the future economic growth of the province. Quite frankly, a lot of people are still very uncertain of the future. There's a lot of frustration out there where they, and I'm talking about our business members, see their competitors in neighbouring American states, and even perhaps in some of our competing provinces, starting to move ahead, starting to have a groundswell of, "The future's looking brighter," while in

Ontario we are not sure of the financial picture in the province. That's why we call for a balanced budget.

Quite frankly, a lot of people are just putting off making those investments that we need in the province in terms of expanding, investing in new machinery, new employees, that kind of thing. But I think it goes down deeper and that really there is a feeling of uncertainty. There is a mistrust of government, if I can call it that. That's reflected quite frankly in the underground economy, where it keeps growing. Reaction from government has been enforcement instead of tackling the problem and being honest, that we have hit what's called a tax wall.

Last year we came and said that any tax increase was going to push us beyond that point where you're actually going to start seeing a decrease in revenues. I think we've reached that point. If it's not loud and clear now to the Finance minister, then we don't know what else it's going to take to get him to realize that we just have no more room to move on taxation.

Mr Monte Kwinter (Wilson Heights): Thank you very much for your presentation. I agree with much of what you say, but I have a comment and a criticism. On page 5, you say, "What particularly troubles the Ontario chamber is that the government seems to believe that a deficit of under \$10 billion can somehow be termed a success." I raised this point yesterday with the Deputy Minister of Finance. I think the media and the chambers are part of the problem.

In 1990-91, when the deficit projection was \$9.7 billion, we had demonstrations outside Queen's Park. It was a big deal. It was a huge deal. Now every year, when the government floats a figure that it could be \$13 billion or it could be \$16 billion, it comes in at around \$10 billion. The media, the chambers are saying, "We're not happy but it could've been worse." It's gotten to the point where that figure is accepted as acceptable.

In your presentation you're critical of that but I find, and I look for it after every budget, that the business leaders, the banking community, the media, the chambers, are saying, "At least it's under \$10 billion." You've sort of bought in to this level. I'd like to have your comment on that.

Mr Couto: I would not accept that we've bought in to the \$10-billion figure. If it's being construed by the media that somehow chambers of commerce in particular, and I won't speak for the business community as a whole, find \$10-billion deficits to be acceptable, it's just not so. We know that the \$10-billion deficit this year is nothing more than tax increases in the years to come and on our children.

I think what we're trying to say in this paper, Mr Kwinter, is that we have to have a real change in mindset here. This particular government is no different than governments in the past and in other jurisdictions. They do something before every budget, putting out some figure that's \$4 billion or \$5 billion more than what's going to come down as the deficit, and then we all have a tendency, because we're human, to say, "Well, at least it wasn't \$14 billion," and I think that's something we all have to work on.

I want to make it very clear that nowhere in our 205 chambers of commerce do people think that a \$10-billion deficit is acceptable. Indeed, we have urged our members to look for what are the real numbers, and what we're saying here in our addendum is we think the real deficit is closer to \$12 billion. I can assure you that whatever figure the government comes up with this year, we are going to study it very closely, and our chambers of commerce are going to make sure that their local MPPs understand that it clearly cannot go on this way, that we have to have a plan to get rid of this annual deficit and that we have to have a plan to deal with the deficit situation we have in this province.

Although I can sympathize with what you're saying, that it's very frustrating for you as opposition members to see people breathing a sigh of relief at a lower deficit figure, in no way are we going out and saying that we're pleased it's not higher.

Mr Carr: I appreciate the presentation. I wish there was more time.

I spent the last couple of months going out as our critic for Economic Development and Trade, talking to business and what we're going to be able to do to create jobs. I want to tell you that there's so much anger out there at political parties at all levels and of all political stripes. People are usually pretty kind to their own members, but when you get out to other ridings they really let you have it, and they don't care if you're Conservative or Liberal or NDP; they think we all are creating problems.

I would love to spend time getting your opinions on WCB, employment equity, Bill 40, all the things I'm hearing, but since you focused on the financial issue, I want to talk about the big issue that this province is facing, and the federal government as well. You say that jobs are going to be created in the private sector, and I agree. I think governments at all levels and all political stripes have put up more roadblocks over the last little while and have been one of the biggest problems to business succeeding in this province.

The question right now is that, as you know, governments like to be perceived as doing something. Politicians like to be out there cutting ribbons, whether it's a courthouse opening and so on. The province has spent a great deal of money on job capital programs thinking that was going to stimulate the economy and create jobs. The federal Liberals were elected on their program of spending \$6 billion. Could you give us your honest assessment of that program?

Would the chamber, knowing the fiscal situation—you know it's a share-in with municipalities and federal and provincial, so that's why I'm asking you—on this program that we're going to undertake at the federal level, the \$6 billion of \$2 billion, \$2 billion and \$2 billion, do you think we should be doing it, or would you rather see us put that on deficit-reducing taxes? What's your honest assessment about what's going to happen with the federal and provincial governments' program in job creation?

Mr Don Eastman: Mr Carr, you have hit on, I think, one of the fundamental problems that we've faced for a long period of time, and that's that politically a job that

you can take credit for is worth a lot more than jobs that are created that you can't take credit for.

Mr Carr: That's right. It shouldn't be, but it's the case.

Mr Eastman: That's a political reality and I don't know how we change that. I guess the comment I've got on the job creation program is that if government is going to spend money, it's at least helpful if it goes into real assets that have a long lifetime. To the extent that this program does that, we would prefer to see the government money spent that way than in some other ways.

The numbers that are presented still pretend that this money drops out of the air somehow, that it doesn't come from someplace else in the economy where it's actually costing jobs. If you really do the right equation that says, "Okay, it has to come from someplace. Where's it coming from? What are we really paying for it?" then I have some real concerns that what we're doing is, once again, moving some jobs away from the taxpaying private sector into the tax-absorbing public sector.

Mr Carr: Let's be very blunt. I appreciate where you're coming from and you have to be diplomatic. Should we do it? Yes or no?

Mr Eastman: In my opinion, I would prefer to leave the money in the hands where it will create jobs, in the private sector that will pay taxes.

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Mr Carr: Another question: I think that at the federal level the Reform Party called for elimination of all government handouts and grants, whether it's the Ontario Development Corp in the case of Ontario. Speaking to a lot of businesses, they said the same thing. They said, "We never source them. It's only the de Havillands and the Algomas that get them." Again, government likes to think that it's done something. They put this pool of money together. Most of the job creators, the small and medium businesses, never source it.

Businesses are saying to us, "Whatever amount the Ontario government spends, \$500 million, \$300 million, \$200 million, in grants and loans, take that money and reduce the employer health payroll tax, starting at the lowest companies up." It would do more to create jobs and help the business climate in the province of Ontario. One political party in this country called for that, because the federal Conservatives gave out money and were there to cut ribbons too; the Reform Party did not.

Would you like to see the Ontario government get rid of government grants and handouts to businesses, and not just take that money and then spend it on welfare but reduce taxation levels? Yes or no? What would you like to see done?

Mr Eastman: I would like to see them get out of that. One of the problems we've got is that as long as those programs and those types of programs remain in place, even if you want the rules changed, you still have to play the game the way the rules are currently set. You may feel that a point after touchdown is a waste of time.

Mr Carr: A good analogy.

Mr Eastman: We would like to see the rules changed, but if it's your team, you're still going to kick

for the point after, even while you're trying to get the rules changed. I would like to see the elimination of those kinds of programs, but as long as they're available, I think any business that doesn't try to take advantage of them is crazy.

Mr Carr: A quick question on the WCB: You didn't touch on that, but the assessment on that. Speaking to businesses, they say that's another tax. We're looking at 33% increases and they think that's terrific. The problem we have with the WCB is the same as with taxation. This government thinks it has a revenue problem. It does not. It has a spending problem. Until we start looking at reducing the cost, cutting it back like New Brunswick has done to 80% instead of 90%, you're not going to be able to deal with it.

Businesses are telling us that this is killing jobs. The average employee doesn't realize that, because of course they don't pay it. With respect to the WCB, what is happening out there? What is happening in terms of jobs? Is the WCB cost killing jobs? What would you like to see done with the WCB, which has an unfunded liability of about \$12 billion and we haven't included that in the deficit? What would you like to see done?

Mr McCollum: I'd like to perhaps let Don or Joe talk about the Workers' Compensation Board, but as a representative of an employer here in the province, the Workers' Compensation Board, health care taxes, income taxes are all factors which go into your equation to find out whether it's a reasonable thing to do to make investments in factories which are in this province.

In my company in particular, we're a worldwide company, so it doesn't really matter to the overall corporation where it makes the investment. I think that any time one of these taxes or more of these taxes start to build up, they're all part of our cost of goods, if you like. Every time we add to this, what we do is we tend to make our goods and services less competitive, and that hurts jobs in the province of Ontario, no question about it.

Mr Sutherland: I thank the chamber for coming. I want to refute a few of the statements made in your presentation. First of all, let me say that when you talk about the direction of the social contract and when you talk about the so-called savings coming from hospitals, school boards, municipalities, the teachers' pension fund, and not the government itself, I think this is part of the problem and part of the perception problem you talk about. You're reinforcing that perception.

Over 70% of what the government spends goes to transfer payment agencies; 30% in the MUSH sector and the rest through different, other types of organizations for payment. So the money is going to organizations that are providing the services, the vast amount of it, yet you here are putting forward that when we make the cuts to school boards and hospitals, it's not the government cutting. The government funds most of them. I think you're playing into some of that perception.

You talked about employee empowerment. As part of the social contract, many of the negotiators wanted to have employees have more say in decision-making. Many of the management representatives rejected that outright. We have made initiatives on many of these things you

have put forward, and I guess I'm just a little frustrated by hearing this perception that government is completely wasting money when most of the transfers are coming from the provincial government. If they're saving, we're saving through the reduction in the transfers.

I want to ask you about one of your summary comments. You say, "Commit to no increases in direct or indirect taxes." I'm not sure whether it's the chamber itself, but certainly many business people have told us that on certain types of processes, for fees and licences, we should do a direct cost recovery, try and recover those full costs. I've had many business people tell me on the \$50 registration fee, on other licences—we've heard the Liberals and the Tories call them "tax increases," the increases in licences and fees. Is it the chamber's position that it supports full-cost recovery for the costs of birth certificates, drivers' licences etc as a way of getting a handle on our expenditures and helping to control the deficit?

Mr McCollum: My comment on that would be that it seems when ideas like that come forward, one side of the equation comes forward, and that is, "I guess now we'll start to direct-charge for some service," but we haven't seen where that then gets reduced. So what you're doing is shifting the way that you're collecting taxes, depending upon the kinds of taxes you're collecting and the kind of users that are involved. It may be a good way to go. But if what you're doing is just adding, adding, adding taxes without taking away, I think that's the perception we have, that in the whole idea that we have of raising taxes, it actually is increasing the tax burden; it's not shifting the tax burden to the services that are being used.

The Chair: Mr Jamison, we have less than two minutes.

Mr Norm Jamison (Norfolk): I have the 10 seconds you just took.

The Chair: Well, now you've just wasted another 10.

Mr Jamison: All right. Just a comment, then, really, and I'll try to run it into a question. People said the change in the economy is unexplained. I think it's rather obvious that globally economies are suffering everywhere. Let's get real when we talk about the economy that way, the US, Japan, Europe, whatever.

I just want to point out that when you give a presentation we understand that the public and the press and so on realize that you give it from a rather right-wing perception of things. Whether that be true or not, that's the perception. I just want to remind you that growth projections are highest in Ontario.

You talked about the \$10-billion deficit. We're not happy about that deficit. We're not happy to have to run deficits. Deficits during recessionary times are quite normal. But at the same time, our deficit was supposed to be in the range of \$16.7 billion; it's now projected at \$9.5 billion.

If you look at the percentage of the budget that was dealt with, you'll find that federally a Conservative government, which people tend to connect your philosophies with somewhat, ran a \$46-billion deficit, and it

continually got higher. So I'm saying be fair in your approach. We hear what you're saying. There is some pretty good thought, as far as I'm concerned, put into your approach.

If we hadn't taken a balanced approach and had just simply cut, which is the approach from the chamber I keep getting year after year—regardless of anything just cut—people in this province would have suffered much more severely. There is no question about that, none whatsoever.

The argument made really talks about your perception that we all have to come down to the lowest common denominator. Although there may be some truth to that, there's still some untruth to that. Canadians and Ontarians who are average Canadians and Ontarians do not agree with you on that.

The Chair: Mr Jamison.

Mr Phillips: Hear him out.

Mr Jamison: I can tell you that trying to come out in the first part of your document and say that you support the social programs and then taking a large shot in the last part of it confuses me severely, and I'd like you to explain a little further what you mean by that.

Mr Couto: If I can make a very short comment, because I know Don wants to have a comment too, let me just say that you made a good point in saying "perception." Whether or not you believe your numbers are correct, whether you believe that you're doing the right thing, I'm telling you that our membership, quite frankly, doesn't believe your numbers, and that has a significant impact on jobs in this province.

We're not saying to cut to the bone and throw people out on to the streets. What we're saying is that there are areas that you haven't touched, like do we have to spend \$300,000 on a NAFTA dog-and-pony show which basically reaffirmed your government's position and served no one's ends? These are the types of things we really get upset about. That's why we don't accept \$10-billion deficits. That's not coming from left wing or right wing; it's just a commonsense position.

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Mr Eastman: If I might, in terms of perception, if this has come across from us as being a challenge specifically to the deficits run by this government and no other, then our representations were not. We have a real concern about the deficit situation that existed in this province when you took office. It was a problem that needed to be addressed then, not made worse. We have a real problem with the deficit situation that we have with the federal government.

The real message from those deficits, whether they be federally or provincially—and yes, there is right now an economic problem—is one that says, "Hey, that \$10 billion represents the difference between our standard of living and how much we're borrowing against the future, how much we're borrowing from other people, how much taxes we have decided we will let our children pay for us."

The one message that I would have liked to have got through in this, and I don't know how we accomplish

that, is a concept of sustainable government and why you can, on a short-term basis, run deficits. On a longer-term basis, the level of government that is sustainable is only that which can be supported by the taxpaying private sector. I think the public sector is tremendously important, but there is no way that you can have a healthy, dynamic public sector unless you have a healthy, dynamic private sector that's supporting it.

What these numbers say is that right now we have a serious imbalance that we have to get fixed, and that's a problem that all of us have to deal with. I think the real solution to that isn't to substantially diminish and cut the heck out of what we're doing in the public service, but to see what we have to do to get private sector employment and activity back up to where it belongs. But you cannot continue into the future with this imbalance, because the more the private sector drops, the more it will pull the public sector down with it. That's the fundamental message we want to get across here.

The Chair: Our time has expired; in fact, we've gone somewhat over what we were allotted. However, I would like to thank the Ontario Chamber of Commerce for making its presentation before the committee today. Thank you very much.

Mr Carr: I have a point of order; maybe not a point of order, but a quick question to Mr Jamison. You're the parliamentary assistant for what, Mr Jamison? Can I ask that?

Mr Jamison: The Ministry of Economic Development and Trade.

Mr Carr: Thank you very much. I just had a quick question.

Mr Jamison: And you're the critic for?

Mr Carr: The Ministry of Economic Development and Trade. I just wanted the chamber to realize that the parliamentary assistant—

Mr Jamison: They know full well who I am. I can tell you that.

UNITED SENIOR CITIZENS OF ONTARIO

The Chair: Would the next presenter would please come forward: Mr Jack Dyce, president, United Senior Citizens of Ontario. I would like to apologize to you, sir, for being a little bit behind schedule. Please make yourself comfortable, and whenever you are ready, you may proceed with your presentation.

Mr Jack Dyce: Before I open my comments, I would like to express the fact that we will not take too long. We will make up for the time that you have lost.

Thank you for this opportunity of presenting some of the thoughts of seniors with respect to this pre-budget consultation.

We appreciate the fact that both federal and provincial governments are apparently coordinating their efforts to reduce both the national and provincial debts. We understand the continued rising costs the government is faced with in the funding of the various ministries. We know that cutting costs and raising funds through taxation is mandatory.

Seniors, like all others, strongly support a fair taxation

system, and we are fundamentally in favour of the principle of universality. With these two basic thoughts, we would like to present the following for your consideration.

First, each of you has received a copy of our brief directed to Premier Bob Rae, his cabinet and members of the Legislature, including all members of the opposition. In this brief we covered many of the problems of the seniors population. Increased costs of health services, nursing homes, home support services and housing were well underlined. We will try to avoid any repetition of these points in this presentation.

One fact we might stress is the passing of Bill C-91 by the federal government. We strongly disagreed with the passing of this bill and subsequent acceptance by the provincial government because of the construction of a building in this province by one of the pharmaceutical manufacturers. This Bill C-91 increased the cost of drugs, thus affecting our Ontario drug benefit plan to the extent that many needed drugs are being withdrawn from the plan to save costs. The Prime Minister has indicated his interest in having Bill C-91 rescinded, and we trust that we will get your complete cooperation.

We believe in a progressive base of taxation: The higher the income, the better the ability to pay. Increase in rates should have tax brackets established on a more frequent basis. A senior earning in excess of \$50,000 is subject to the clawback in order to repay the old age security. The practice of universality would eliminate the clawback and the income derived would be taxed progressively. We understand that only 3% to 5% of seniors taxpayers are in this category.

Our tax forms are much too complicated. It is necessary to make the tax form more simple and easily understood, rather than the present one requiring a Philadelphia lawyer to unravel. As a result, many seniors do not fill in the tax form for the purpose of obtaining tax refunds for sales tax and the property tax, which was originally provided to seniors for the relief of school tax. Many seniors are not aware of the refund available or how to go about claiming it. Many in the rural communities cannot get assistance from the government tax office or other agencies providing free tax assistance. Others cannot afford to pay a tax consultant. As a result, the government must be saving millions of dollars due to these circumstances.

Income and taxes are inextricable. Similarly, taxation to a great extent is interwoven between the federal and provincial taxation programs. We are well aware of the many loopholes that exist in the corporate income tax structure. I had an acquaintance, a multimillionaire who has since passed away, openly boast that he never paid one cent in taxes. He took advantage of every loophole and tax shelter possible. It is general information that it is possible for an individual to earn up to \$14,000 without being taxed. The regular taxpayer has to pick up the shortfall.

We recognize the need of some corporate tax concessions in order to prevent the migration of industry to a better tax haven.

Mr Kwinter: Excuse me. Can I just ask you a

question? You said "\$14,000" and the text says "\$41,000." What is the right figure?

Mr Dyce: I'm sorry; \$41,000 is the figure.

However, the level of restraint on concessions should be linked to the profitability of the corporation.

Interest has been directed to taxing an individual in an organization for his portion of the meal expense when entertaining a customer. When a municipality entertains a group of seniors at a Christmas affair, how can they be taxed? This can be best described as nitpicking, particularly since the government can afford to establish an unnecessary and costly level of bureaucracy in the long-term care health system. Nineteen long-term care offices have been furnished throughout the province and are being manned by well-paid bureaucrats. At the same time, plans are being implemented for the long-term care function to be conducted by 34 district health councils and their long-term care committees, with subsequent plans to set up multiple-service agencies in each community. This duplication must increase health care costs.

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Volunteers are essential to the wellbeing of our society. Many service organizations, charities, health agencies etc could not function without a large staff of volunteers. The government has not only endorsed and encouraged the use of volunteers, but has actually relied on their availability in several areas. The Ministry of Health, in introducing the long-term care program, stipulates that the long-term care committee will be basically manned by volunteers; 30% to 35% must be seniors.

Similarly, this situation will exist in the establishment of the multiple-service agencies. A reasonable estimate would be that over 80% of volunteers are seniors. They have the time and the experience. It is estimated that Canadians contribute over one billion hours of volunteer services annually, valued at more than \$13 billion. Some volunteers get compensation for mileage for the use of their car. Most only get personal satisfaction in rendering service.

If the provincial government wanted to get full satisfaction from volunteers, some recognition should be given in their income tax in compensation for expenses associated with their volunteer services. Potential volunteers may be very willing to donate their time. Some may not be able to afford any expense that they may incur. American volunteers can deduct from their taxes most of their expenses incurred while serving the community.

Income taxes actually increase when a spouse dies. There is little impact in the year of the spouse's death, but income taxes often increase dramatically in the years after the husband or wife dies. Many examples can be provided. This tax problem, however, is federally based, but it is increased by the present method of basing provincial taxes on the taxes paid federally. The unfairness of this federal system, the federal tax, thereby automatically is transferred to the province.

It seems that much consideration is given to the possible elimination of tax exemptions for seniors. The elimination of the Ontario tax reduction program, the scrapping of property and sales tax credits, the

abolishment of the age tax credit and the pension income credit are an indication of what is in store for seniors. Moreover, it has been suggested that an increase in taxes, beginning at the \$20,000 level, be levied.

The proposal to include all goods and services to be taxed under the Retail Sales Tax Act brings a further tax invasion. Seniors objected strongly to the services taxed under the GST. Some items, such as the tax on funeral services, were considered unjust. Many seniors try to prepay their funeral expenses and are forced to pay this death tax.

According to a chart published by the Ministry of Community and Social Services, less than 1% of the recipients of social services are seniors; 47% of seniors live below the poverty line; 74% of these seniors are female and do not receive the benefits of the CPP since they do not qualify. Yes, we believe in fair taxation, but not just for everyone else.

The Chair: Thanks very much, Mr Dyce. We have about six minutes per caucus.

Mr Cameron Jackson (Burlington South): Mr Dyce, most of the members have had an opportunity to read your association's brief, which was more fulsome in detail in a variety of areas, so I will just raise a couple of the issues that flow from today's presentation, if I may.

One of the other major contributing factors on the Ontario drug benefit reduction discussion by the government also had to do with its desire to shift it to those on social assistance, to assist them to leave social assistance but maintain their drug benefits so that, economically, there would be an incentive to go and take employment at those rates. You didn't mention that, but I wanted to make sure you were aware that the government's attention, very much a part of the discussion, was around moving the Ontario drug benefit plan to assisting the poor generally and not as the genesis for the plan, which was to assist seniors first and persons on social assistance second.

Mr Dyce: I'm sorry, this was for those who have disabilities?

Mr Jackson: No, this is for persons on welfare. The three groups that we've discussed all participate in the Ontario drug benefit plan, but the government publicly admitted that it was making some of the cuts to seniors and their specific geriatric-type drugs and highly utilized drugs from the formulary in order to make up the money so that they could allow social assistance recipients to stay on the drug plan while they move out of social assistance. That was very much part of the public debate. You didn't mention that, and I just wanted to make sure that you and your organization were aware of the shifting priorities of the government with respect to who utilizes the Ontario drug benefit plan and to ask if you had any comments about that.

Mr Dyce: No, we're perfectly aware of this. Basically, we looked upon the elimination of a number of drugs that were not only needed but necessitated a greater use during the day. In other words, some of the drugs that were presented for one-a-day type of thing ended up with four times a day, which required a much more

careful observation of other drugs that were taken, particularly when some of the seniors are taking anywhere from 10 to 15 drugs. To have to time these drugs during the day, this is one of the problems that exist.

Mr Jackson: The other area that you discussed was in terms of long-term care. This is a very complex area of health care for seniors, but you've identified at the outset the government's extensive investment of moneys to develop an infrastructure, and yet we're still waiting to see the elements of increased program access.

I wondered if you wanted to provide some additional comments with respect to the fact that we have no clear statements from the government for the expenditures for extended access to home-based, home care services and so on and so forth. We've seen the spending. You've identified the spending to set up a bureaucracy. You're here because you're concerned that those services are focused towards the seniors and received in the home or in an institutional setting or wherever. But we're not seeing that part of the equation; we're only seeing the amount of moneys that have been diverted to build this new infrastructure.

Mr Dyce: Basically, in our discussions, I'm relating the experience that we have with the long-term care committee. This was established back a couple of years ago and some of the problems attendant with that were the setup of the health care under the district health councils and subsequent expansion under the MSAs. At that time, we felt that the burden of the long-term care offices under the jurisdiction of the province directly—I'm talking about the 19 that were established. We figure that's a level of bureaucracy that should not have been, because of its cost.

When this program was being developed, they had established the offices. By the same token, they were going to the various municipalities or the counties and setting up under the district health councils a program that was expanding at the time, and it was necessary to expand. They had allocated—I believe the figure was \$647 million for the purpose of doing this, and yet only up to \$100 million has been spent at this time, to the best of our knowledge. Therefore, we feel that there's something radically wrong when we establish two basic organizations, if you would have it that way, to provide long-term care.

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Ms Jenny Carter (Peterborough): I think you raise a lot of very valid and interesting points. I'd like to start with the drug question, and I certainly agree with you that the federal government didn't help very much by bringing in Bill C-91, which is going to put up the cost of drugs for the drug benefit plan quite astronomically because we will not be able to access the generic drugs that would have replaced some of these high-priced drugs.

Now, you mention changes to the formulary, to the drugs that are available. I'd like just to point out that this is an ongoing process. This isn't something where there's been a change in policy. We look at drugs from the point of view of cost, or rather the special committee to do this, which consists of experts, looks at it. It looks at

their effectiveness, and if a particular drug is costly and something else will do the job just as well, then the costly one is eliminated. If something is deemed to be ineffective, then it also would be removed. Of course, new drugs are brought onto the formulary from time to time.

You mentioned the long-acting drugs and I think the point there is that those long-acting drugs are several times more expensive than the similar drug that is taken a little bit more frequently. That was the rationale for removing them.

Mr Dyce: May I make a remark in that respect?

Ms Carter: Sure.

Mr Dyce: The seniors are not basically aware of the fact that there's a discrepancy between a one-drug-a-day against four of the similar type of drugs.

Ms Carter: Yes.

Mr Dyce: It's quite obvious that the four drugs to do the same thing, to the senior's mind, would be more expensive than just to have one drug on an extended basis.

Ms Carter: Actually, it is much cheaper to have the four doses than to have the one drug, and that's the reason.

Mr Dyce: By the same token, one of the problems attendant with seniors taking drugs is the fact that they have been overdrugged. When 4,000 Canadians died in 1989 through being overmedicated and when our hospitals have got a large quantity—I think 40% of the hospital attendance is for seniors, and 40% of those seniors are in there for overmedication.

Ms Carter: I absolutely agree with you. I think some seniors have far too many drugs, and we are working on that in different ways, trying to get information out to people. As you may know, we now have a computer system which is installed in pharmacies which connects up with the ministry. The pharmacist, as he dispenses the drug, can see what that person is already taking, what drugs he or she has, and can eliminate possible interactions.

I absolutely agree with you on that. I think we have to look at reducing the total medication of seniors, which will of course not only improve people's health but reduce the cost as well.

Another point you raised was the property tax. My understanding of the changes we made to that was that instead of having a flat rate rebate, I believe it was \$600, it now depends on income. It's in the income tax, so that a senior who is actually not affluent, who, say, has less than \$20,000, which is very common, is actually going to get a larger rebate than he did before. I believe it can be as much as \$1,000 for a senior whose income is low.

Mr Dyce: We are aware of the fact that there is a certain group of seniors who are being paid more than they originally got through the \$600 and the \$50 for the sales tax.

Ms Carter: Those are the low-income ones.

Mr Dyce: We recognize this. By the same token, we also recognize the fact, and this is what was covered in

this brief, that there are many seniors who are not registering and therefore get nothing. So they've not only lost the \$600, but they've lost the \$50 sales tax as well.

Ms Carter: I see.

Mr Dyce: This registration was the problem I brought out here because the seniors in rural areas do not have access to the tax offices or even those agencies that provide free taxes. As a result, they're left out there, and there are many of them who are left out there without getting proper information with respect to how to approach to get this rebate.

Ms Carter: They would need to fill out a tax form.

Mr Dyce: Yes, it's essential that they have to do that, but they're not aware of it. You can readily realize that many of them being out in what we refer to as the boondocks, on farms and so on, isolated, do not have the ability or the availability of getting transportation into an area where they can get this type of help. We know that many of them are not taking advantage of this situation.

Ms Carter: That is a problem we have to address. I absolutely agree on that.

Mr Dyce: That's why I mentioned this here.

Mrs Elinor Caplan (Oriole): How much time do I have?

The Chair: Six minutes.

Mrs Caplan: There really were two issues, questions I wanted to explore with you, and it's nice to see you today. It dealt more with the financial aspects. I understand the impact of taxes on everyone in society, but I know it's particularly hard for people on fixed incomes and seniors of course fall into that category, and so your recommendation and strong suggestion on behalf of United Senior Citizens of Ontario that the Treasurer not increase taxes is a very important message.

The second point was the importance of maintaining the essential services to seniors, but implicit in that, and the suggestion that you are making, as I read and listened, although I wasn't able to hear all of it but I did read your brief, was the suggestion that there was a lot of existing waste that could be cut if you were looking at maintaining the services and only eliminating that which was wasteful.

I wanted you, if you could, to give us some examples from your personal experience where you've seen the kinds of wasteful expenditure that could be eliminated without affecting the kinds of important services that seniors receive. That's question number one.

At the same time, you mentioned in here a concept where seniors could be productive and active, but can't afford to volunteer. How expensive is it to be a volunteer? The recommendation that you're making here is that if there could an income tax deduction up to a certain amount for volunteers, particularly for seniors. That was something you mentioned on page 4. I'm interested in how you would see that working.

Mr Dyce: I'll deal with the last one first. From the standpoint of expenses pertaining to volunteer services, it can vary considerably. If a person has found it necessary to use their car, it happens in many cases where they

can't get a rebate or at least a payment for the use of their car. There are many cases where seniors have required transportation, and I'm speaking again out in the outer areas, not in the metropolitan areas, where they can't get to a doctor or can't get to have health services, many things of this nature, even to the dentist or the banks and so on. They have to rely on neighbours or people who are associated with an agency to provide this type of service.

Therefore, I think automobile costs are major, but on top of that there is the time. I could get into the fact of respite care where volunteers are used for that purpose on a health basis and so on. There are many things of this nature and I know that there is consideration given ultimately, or there will be, to respite care factors. But these are things we're faced with all the time and we're trying to get some way of getting some compensation for that particular point.

Now to get back to your first question. Was that related basically to health services?

Mrs Caplan: No. In fact, I think seniors certainly receive a large number of health-related services, and you mention particularly drugs and long-term care, but I think seniors use a lot of services that are provided both directly by the provincial government as well as by transfer agencies, and you might have had experience where you can see where the service could be maintained but provided in a better way that could be less expensive while still maintaining the service. I'm just wondering if you had any experience or examples where you felt that government could provide the service better and it would cost less.

Mr Dyce: You're leading into a very good point. At the present time, I happen to be a director of the East Wellington Advisory Group for Family Services. There's one organization that is the recipient of funding from the Ministry of Community and Social Services to quite a large extent, and particularly in this area of seniors. We get good service from that standpoint; there's no question about it. But you look at the chart that was put out by the Ministry of Community and Social Services and you'll find that less than 1%—they indicate 0.9% actually—assistance for social services go to seniors.

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You asked me to cite my own particular instance in this, and yes, we do get help through the Ministry of Community and Social Services in proportion and sometimes we find that even in—I can cite cases where the distribution of the funding from the Ministry of Community and Social Services is not specifically spent in the areas where it's required. We have knowledge of this type of distribution. We're satisfied up in our area.

Mrs Caplan: That's very helpful. Thank you.

The Chair: Mr Dyce, I'd like to thank you for making your presentation before the committee today.

Mr Dyce: Thank you. May I make an observation that if any of the members of the committee have not received our brief to the government, I've given some extra briefs to the secretary so that they can have them.

The Chair: Thank you very much.

PROGRESSIVE GROUP FOR INDEPENDENT BUSINESS

The Chair: Next is the Progressive Group for Independent Business, Mr Craig Chandler, president.

Mr Craig Chandler: Today I'm going to review a couple of things that are sort of bothering the business community. We've done a few things in relation to the Fair Tax Commission, which I'll go over, but I'd like to start off with Bill 79, employment equity, or what our organization calls the employment inequity bill. I'd like to go over a few sections we have a problem with.

I'll start with section 9: It says the employer will conduct employment equity workplace surveys and collect other information to determine the extent to which members of the designated groups are employed.

Our response: Firstly, the collection of this information shifts much needed time for the employer away from business to focus time on conducting petty surveys. Secondly, employees have the right to decide whether to answer the questions in the survey, which will result in lack of accurate workplace data.

Section 10: The employer will review workplace policies and procedures and determine which ones should be changed or dropped in order to remove discriminatory barriers to the employment and promotion of target group members.

Our response: This is out and out racism and sexism, as the employer is to promote or target certain groups in society not based on their qualifications but because they are of a certain group. We cannot claim to live in an egalitarian society on the one hand and promote target groups on the other. It also takes too much time for employers.

Section 11: Employers will prepare an employment equity plan which must provide for the elimination of barriers identified; the implementation of positive measures to recruit, retain and promote members of the designated groups; add specific goals and timetables for changing the composition of the workforce to ensure that the workplace in all occupational categories reflects the number of individuals from the four designated groups in the same proportions as exist in the community at large.

The only true employment equity plan, we feel, and positive measures of recruiting, retaining and promoting members of designated groups, is by the employer hiring employees based on professional merit and skill. No other equality plan is acceptable to the business community or to any egalitarian society. Quotas are racist and sexist, no matter who they relate to.

Enforcement: The government will establish a quasi-judicial tribunal to enforce the act. It is charged with levying complaints from employees who believe an employment equity plan has not been implemented or is ineffective. Should an employer fail to comply, the tribunal has the authority to implement, review and revise the employer's plan. Non-compliance with an order from the Employment Equity Tribunal could result in a maximum fine of \$50,000.

Out of a poll of the members of the PGIB, the members support employment equity based on promoting the best people from all areas of society. It makes the only

logical sense for Ontario. Also, the business community in Ontario is horrified by the socialist idea of the government monitoring the collection and reporting of reams of material. Voluntary is one thing, but compliance, in our mind, is communism.

Moreover, our organization feels that for an employer to do a proper review of the workplace to ensure that there is adequate representation of the target groups will cost thousands of dollars for permanently retaining employment equity consultants or training existing staff. Businesses in Ontario do not have the money to do this, nor do they have the time.

However, even though during public consultations many participants recommended the use of financial incentives and grants and the provision of low-cost or free technical resources to employers to loosen the financial burden of compliance, we do not see this as an answer at all. The government must not only keep out of the employer's hair in relation to employment equity, other than promoting the merit system, but the government must also keep away from business subsidies and grants, as we are in a serious deficit and debt crisis. Giving away more money we do not have will dig our debt hole even deeper. Handouts are not the answer.

The commission, the Employment Equity Tribunal: We can't afford another layer of middle management. It seems that the only jobs the NDP can create are in the public sector, but it is destroying jobs in the private sector. Our research shows that 36% of all businesses in Ontario are considering moving part or all of their business to the United States and another 18% are considering moving to Alberta or British Columbia; anywhere but Ontario. I guess we can review some of the NDP's track record.

The Ontario NDP has increased our deficit 219% to \$9.7 billion, which we all know is out of whack already. The Ontario NDP has had billions in tax hikes. After the 1991 budget—way back—business taxes were 30% higher than either Quebec or New York state, which are going to increase, even under the Fair Tax Commission.

Bill 40 serves only the interests of organized labour, whereas the other 66% of workers are forgotten. Bill 40 has promoted American business at the expense of business in Ontario. Bill 40 revokes the right of secret ballot for workers. It is estimated that Bill 40 alone will cost Ontario 250,000 jobs.

The Rae government refuses to research new methods to produce energy, naively thinking conservation is sufficient. The NDP's taxes have cost Ontario \$3 billion and 14,000 jobs, which is now out of date again.

In 1991, the Rae government negotiated a 5.8% pay raise for most civil servants. Government wages have risen from \$480 a week to \$735, compared to \$480 a week to \$608 in the manufacturing sector. The provincial civil service has increased by 90,000. The jobless rate has doubled. The province of Ontario's losing jobs. Many taxes are increasing and our debt and deficit are going way out of control.

The facts are absolutely horrifying. All another layer of middle management will do is create more taxation for

business and make our province even more lethargic and uncompetitive. We feel, rather than creating this new layer of useless civil servants, that concerns about employers' hiring practices and their policies should be addressed by the already existing Ontario Human Rights Commission. Why duplicate? Why spend millions of dollars that we do not have on a new and unnecessary layer of middle management, especially at a time when our government should be streamlining?

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The power of the commission: Welcome to communism. The power of the commission is absolutely dictatorial. This commission has enraged the business community and has surpassed the democratic principle of innocent until proven guilty, because without a hearing the commission can order an employer to take any steps dictated by the commission that it considers just in achieving obedience with its decree from Red Square. The penalty for failing to comply is \$50,000, which is enough to put most companies in the red, and this is very anti-business.

Moreover, this tribunal can even appoint someone to write and implement the employment equity plan for a business, at the employer's expense. This means that only those who are faithful followers of the tribunal agenda will be appointed, which will have results and quotas. Because an employment equity plan is an all-encompassing document ranging from policies, practices, work conditions, size etc, it is as if an employer no longer owns his or her own business if someone is running it for them. Who needs the hassle? No wonder so many companies are leaving.

Furthermore, if the tribunal chooses to audit, the commission has the right to arrive at an employer's workplace without announced notice and demand access to all documents. This is a remnant of the Stalin era of sheer and utter communism. Section 26 provides that anyone can launch a complaint that the legislation has been violated. This is ridiculous, as an employee who is in the least bit frustrated with their employer could see launching a complaint as a means of revenge for their grievances. Employers will be audited every other day. Let's get practical and realistic. We want to keep our own businesses in Ontario, not drive them out because of slowdowns and bureaucratic paperwork.

The merit principle: Quotas are not consistent with the merit principle of qualification. We agree with the Progressive Conservatives when they state, "If barriers to employment are removed, members of the disadvantaged groups should be able to be subjected to the competitive process and hence hired only on the basis of merit."

Any society which bases its hiring practices on qualifications grows unambiguously and it flourishes, as the best people for the job are hired regardless of their race, language, gender or culture. Therefore, the NDP in proposing Bill 79 made its biggest oversight by making no mention whatsoever of job qualifications and does not give the employer the right to hire the best individual for the job, thus dictating to the employer and making us less competitive in the global marketplace.

The conclusion of this analysis of Bill 79 is that the

only government policy or program the government should be promoting is voluntary programs, as government intervention is no substitute for qualification in the workplace.

No artificially based quota system can represent true equality as a simple policy of equality of opportunity, which we all have. We believe no segment of society—school, church, interest group or government itself—can guarantee equality of outcome. However, every successful result of each individual rests in the hands of that individual, and that is why we must pursue equality of opportunity to enable the cream to rise to the top.

Bill 79 is a blatantly racist and anti-business bill, as its basic premise is that all employers must engage in deliberate and systematic discriminatory practices and it blames all inequalities which presently exist in the workplace on employer conduct. Further, the bill ignores educational barriers, social conditions and the operation of seniority principles in collective agreements. To rectify these factors and at the same time demand utopian employment equity is unrealistic and a double standard.

Lastly, according to the Ontario Progressive Conservatives, by the year 2003, over 80% of new entrants to the workplace will come from the four distinct groups. So if the tables will eventually even out, why legislate?

The PGIB feels that Bill 79 is wrong for the business community, as employees should be hired based on their merits and skills. Employment equity based on race, language, gender or culture is wrong and we will lobby against any policy or party which promotes these hiring practices. Therefore, the Progressive Conservatives in Ontario have once again shown that they will help foster a better business atmosphere in Ontario, until I hear others come up and speak against it.

Annette Peck, who is the chair of this committee, would be happy to hear from any of you at any time.

That's what we feel about Bill 79. I'll just briefly go over a few things until I run out of time—then you can just cut me off—in relation to the Fair Tax Commission.

We haven't got it all done yet. Our municipal affairs committee is looking at a lot of the aspects. We just got the provincial committee, which threw this together.

Basically, as the intro says, once again the dictators from the Red Square in Toronto have not heard the cries for relief from the masses they claim to represent. They are creating two classes: the poor and the politicians. The rich can move capital quickly out of the province or the country and the poor can live for free off the system and make a very good living doing nothing.

Therefore, only a select few are truly being hit by the new Fair Tax or "more tax" Commission. These select few are business and the middle class. There is a war on the middle class in this province. This commission has done nothing but give the NDP a plan of where to tax more. It is nothing but tax grabs, where those who contribute to the economy and the already brutally taxed will be paying even more.

It is sheer insanity that there will be higher personal income taxes for families earning more than \$40,000. Unfortunately, rather than implementing a fixed percen-

tage flat tax on income, regardless of income bracket, this commission punishes those who are even the least bit successful, because the more you make the more you are taxed. Whether it is \$20 in extra taxes or \$2,000 in extra taxes, it is that much less going into the economy.

Even now, according to Mike Harris, "Ontario's top marginal tax rate of 52.4% is already the highest in Canada, the third highest in the western world and is costing the province significant jobs and indirect losses."

Moreover, the proposed multistage tax will be a nightmare to administer and will mean more consuming paperwork for business and frustration for consumers. This commission is killing programs which provide incentive and is showing that it has no understanding even in the least of the way business is done. This commission and its members are either really stupid and have no grip on reality whatsoever or they purposely are out to systematically exterminate business and jobs. The NDP and its commission of communism are one step closer to creating two classes, the proletariat and the bourgeoisie.

A quick summary of some of the new policies from the Fair Tax Commission, and I hope you're all paying attention to this, because you can talk later in your social groups. I came here and I'd like full attention, so you could listen. Thank you.

(1) The Fair Tax Commission is setting up a central agency, so it's more bureaucracy.

(2) It's disallowing deductions for business to woo clients, which is necessary for business.

(3) It's increasing audits, which is wasting business time.

(4) Elimination of the capital gains exemption is killing incentives.

(5) Taxation of dividends and capital gains is destroying capital.

(6) Establishing a special enforcement is more bureaucracy.

(7) The national wealth tax is a taxation on success.

(8) Subsidizing business is spending more money we don't have and it has a dislocative effect.

(9) Promoting worker-owned co-op workplaces allows no specialization; therefore, not allowing us to compete properly in the global market.

(10) Broadening the retail sales tax to include all goods and services; we can't afford it. We've already seen the effects of the GST.

(11) The retail sales tax will be multistage rather than at point of sale; consumers hit at every stage.

(12) Taxing prepared foods is unfair. Food is a necessity, not a luxury and some people like myself, for example, who have to go around and make noise across this province so some people will hear, have to get prepared foods in order just to live, so it's totally unfair to those who are busy people.

(13) The joint management of the RST will take billions to administer.

(14) Income taxes are going up under Ontario income

tax for families earning more than \$40,000.

I'm not going to read what the Fair Tax Commission has said, because all of you have read that. I'm just going to read our response so we can get done quicker and you can question me and point out the discrepancies that you may have seen in my verbiage here.

The Fair Tax Commission: In the highlights, point 3, it talks about the central agency and what not. What we say is that the government and this commission just do not seem to have a grip on reality at all because establishing a central agency is just another layer of bureaucracy we do not need. The public sector is already too big and once again it is evident that the only jobs this present government and its commissions are capable of creating are government jobs.

To drive my point home, I'd like to give some facts about the civil service of Ontario. There are 950,000 public sector jobs in Ontario, one in every five workers. Of 27,500 major layoffs, 50 workers or more, reported in 1992, 1,500 were in the public sector. Obviously, when the business community is streamlining and downsizing to become more competitive in the global market and to avoid running deficits, the government should follow suit.

Since 1980, private sector employment rose 10% while public sector jobs increased 47%, and under Bob Rae and the NDP it has gotten worse by 90,000. Almost all public sector employees are covered by pension plans, compared to one third of private sector employees. In 1992, the public sector unemployment rate was under 5% compared to more than 12% in the private sector.

All that creating this central agency will do is create another layer of thick middle management, make our province more lethargic and increase taxes on business and the consumer, because you're going to have to pay for it somehow.

1540

The Fair Tax Commission and the recommendations again: Section 7(e) talks about "publish an annual tax expenditure account." This is somewhat of a start. It's not all negative. However, all moneys, we feel, brought into government and spent should be published, as the taxpayer is the shareholder in the company called Ontario Inc. We feel there should be a financial statement each year allocating where every penny has been spent, and the government should balance the budget every three years or call an election on that issue alone.

Paying other people's taxes, problems of compliance: Section 9 in the recommendations talks about the Ontario government seeking the agreement of the federal government to establish and strictly enforce rules applicable to corporate expenditures, limiting meal expenditures and business deductions and what not.

The Fair Tax Commission's exact words are, "Ontario should seek the agreement of the federal government to disallow any deduction for business entertainment." We're sorry, but the deductions allow business to woo clients, as part of the wooing ritual to get them on your side, to get them to buy your product. The tax communism commission is saying we can never take our clients or prospective customers out, which is a totally normal

aspect of business.

The Fair Tax Commission, under section 10(b), (e) and (f) talks about Ontario should improve compliance by increasing rates of audit and penalties, emphasizing cooperative efforts with other levels of government, devising special enforcement. We say the NDP and its more tax commission is encouraging more bureaucracy for all levels of government, because that is the only way you'll be able to have cooperative programs with all levels in identifying underground economic activities. Moreover, the NDP is promoting a KGB-type police state, because they will be devising special enforcement groups to report and force compliance.

The reality of the situation, which this commission could not see, is that the whole reason we have an underground economy is because of the high taxes and strict regulations on business. By destroying legitimate business expenses, they are making the situation worse.

If you ask any company, domestic or foreign, why they're downsizing or leaving Ontario they will give you these reasons: Bill 40, Bill 79 and the incredible taxation. Business says Ontario owes too much, spends too much and taxes too much. The NDP taxes too much because they're in so much debt and are spending millions on the interest on the debt alone. However, what even this commission has not realized is that the first step to getting out of this debt hole is to stop digging, and the first step to getting the economy on track is to lower taxes.

Taxation of dividends and capital gains: It talks of an elimination of it. All eliminating the capital gains exemption is doing is eliminating incentives. The Fair Tax Commission is penalizing success. Capitalism is about rewarding successes, giving entrepreneurs incentives, giving them a goal to strive for. Communism is about penalizing the successful and creating two classes, the poor and the politicians. This is exactly what the Fair Tax—or more tax—Commission is doing.

Business and individuals in Ontario are already paying the third-highest amount of taxes on the face of the planet and the highest in Canada. By lowering taxation, you will increase investment and create a wider tax base for the government to draw revenue from. Business will come in droves because there's a safe haven and Ontario will look like a place to do business once again. After all, it is the entrepreneur who takes the risks and pays the taxes along the way, and the capital gains exemption is just the reward after taking that risk in the first place.

The Fair Tax Commission, in recommendation 30 states, "Ontario should make the changes in the Ontario income tax." Our suggestion would be to have a flat tax on a percentage basis for individuals and corporations.

Taxation of wealth—we call it taxation on success—talking about a national wealth tax: Our response is by overtaxation on the wealthy, you will drive them out. This will not generate additional revenue for the government but will result in a severe drop in tax dollars, as these people will leave. Remember, they can shift their capital. The middle class can't; the wealthy can, so you're driving your tax dollars out by putting that tax in.

The Fair Tax Commission, in 39, talks of subsidies and economic development programs. Although I can understand why this is in, we feel that business people must take a leadership role in calling for an end to business subsidies. Subsidies to business, which have been a feature of Canadian public policy for the last quarter-century, are one of the major long-term causes of the crisis we find ourselves in today. Money spent on subsidies must come from either taxes or borrowing, which increases the debt and only delays the tax burden. PGIB rejects the idea that business should seek financing from governments at the expense of Ontario taxpayers.

Business subsidies have a dislocative effect. By definition, subsidies go to firms that have trouble raising capital in private markets. When governments ignore market signals, they in effect transfer capital from other enterprises that could make more efficient use of capital. Thus politicians often credit themselves with the jobs they create without acknowledging the opportunity cost of jobs foregone in other companies or industries.

PGIB believes that the elimination of business subsidies would have a significant impact on the deficit and would eventually lead to lower government debt, lower taxation, lower interest rates and ultimately a lower required rate of return for business investment. Free markets must prevail.

Fair Tax Commission, under "Taxation of Small Business and Cooperatives" in the recommendations, appendix 44: "Ontario should amend the worker ownership component of the Ontario investment and worker ownership program to permit employees to operate a worker-owned enterprise as a cooperative."

We're giving our response on the basis of what we understand this to mean. I can be corrected if this is not the proper one, because I myself have a little bit of a misunderstanding about this one. From the perception I get, and please correct me if it is wrong because I'd be happy to know, our perception is we are against this, as an enterprise owned by workers does not only follow the communist idea of the workers owning everything, but there will really be no authority in the workplace.

Moreover, if these enterprises are to be operated as cooperatives, there will be no true specialization in the workplace, as most cooperatives demand sharing of responsibilities such as alternating jobs. Therefore, we will not be competitive in the global market if we are not highly specialized and we will not have efficient productivity as workers are moved around too much.

Retail sales tax: The Fair Tax Commission, under 57, says we should broaden the base of the retail sales tax to include everything, all goods and services.

Our response is we can't afford the taxation they will be paying on purchasing, services and necessary materials. Business will have less money to expand, grow, improve or create new jobs. Furthermore, this will substantially curb consumer spending, making our underground and black market economy substantially larger and will put cross-border shopping through the roof. Once again, the government and its commissions are helping kill business which pays the bills for everything that we value in society. Taxation is not the solution, it

is the problem, and all a broadened tax base will do is broaden the destruction in relation to retail sales.

Recommendation 59 talks about not making a single-stage at the point of sale any more, but as a multistage. We feel this is just an attempt at a massive tax grab. What this commission doesn't realize is that by hitting business and consumers at every stage, this commission is drastically reducing consumer and business spending which will lower the tax revenues. Therefore, they will defeat the purpose of the multistage tax in the first place.

Fair Tax Commission recommendation 60(b): "In negotiating its participation in a national sales tax"—

The Chair: Mr Chandler, you have five minutes. Whatever you choose to do is at your discretion.

Mr Chandler: I guess I can stop at this last one. Basically, this national sales tax system is ridiculous because of the fact that we are paying well over 50% of our income to the government. We are so busy trying to make a living that some of us are forced to purchase prepared foods in convenience and grocery stores, and taxing it just perpetuates this vicious cycle of being overworked to pay bureaucrats, commissions and unaccountable politicians. Food is a necessity of life. Prepared or not prepared, it is still food and keeps us alive.

When you talk in 61 about joint administration of the harmonized tax and joint establishment of all aspects of the sales tax policy, this is another layer of bureaucracy. It is giving the provincial government a new taxation level while it doesn't have its spending under control. The NDP is ignoring the will of most Canadians and Ontarians by proceeding with the new retail sales tax.

The NDP and the Fair Tax Commission should take lessons from the Conservatives and the hated GST. When the GST was introduced in 1990, federal spending increased by almost \$15 billion. Moreover, the GST cost the government \$2 billion to set up, and this is exactly what will happen when this tax is implemented. The setup and the administrative burden will fall on the shoulders of business and the consumer, resulting in higher costs and inefficiency in the tax system for consumers, business and government alike.

Those are the main areas I wanted to cover. We do have solutions too, but I only had time to address what our problems are. During the question period, I'm sure I'll have plenty of time to come back with answers.

The Chair: You'll have about three minutes or so.
1550

Mr Chandler: Fire away. What's most important?

Mr Sutherland: I just want to say that we're not going to ask any questions. I just want to make one comment, just to say that we fundamentally reject and disagree with most of the analysis that's been provided. Thanks.

Mr Phillips: Unfortunately, we don't have much time for questions, but I'll start with one of the more important ones. Mr Chandler, your recommendation was to eliminate tax concessions for the business community, or tax breaks, whatever you want to call them. That's a recommendation that's not inconsistent with what we've heard from several business groups.

My understanding is that there's about \$4 billion of tax expenditures in the province for the corporate sector. Is it a fair characterization of your recommendation to say you would be in favour of the elimination of all of those?

Mr Chandler: Yes, we would be, very much so. Even talking to members such as Fearnans or other businesses who receive subsidies of some sort or help from government, they feel if you just eliminate those and lower taxes in general, they won't be coming to the government for subsidies or grants or anything of the sort.

The bottom line is lowering taxation and maybe even reducing the provincial sales tax from 8% to 5%, getting rid of the thick layer of bureaucracy we have, because 1,000 middle management positions phased out saves us about \$70 million or \$80 million per year. That's what we've come up with.

We really do feel that the subsidies at the time were well thought out, we thought it would be a good idea. But at present, because of our deficit and debt crisis, and the IMF breathing down Canada's neck, we should show the world that we're taking a responsible measure, and eliminating those would be our recommendation, yes.

Mr Phillips: That's useful, Mr Chair. Thank you.

Mr Carr: Thank you very much, Craig. I wish there was more time. I would have loved to go into some of the other issues, the WCB and so on, but you have hit on a couple of them. In my riding, as you know, living in and being part of Burlington, on employment equity, I had more calls when I was in the paper than I have had on any other issues, when I came in and said, "You know, the position of our party is that if it's still in place after the next election, we will remove Bill 79." I had 100 phone calls, which is more than I have had on anything else; people of all different communities, minority communities, a lot of women calling about their kids. It all was a part of the job ad that I think twiggled everybody to what was going on. So I appreciate your comments on that.

The same with Bill 40. You know, Mr Harris's position is not only to withdraw Bill 40, but to go further and introduce secret ballot provisions for ratification, strike votes and for certification. I just want to be very clear on Bill 40. You would support that, secret ballot provisions, for things like ratification?

Mr Chandler: On Bill 40, which was also passed around there, our organization is not only for elimination of Bill 40, we're for making Ontario a right-to-work province. We will be pushing vigorously for that as well. We're the first organization to come out and push that. We are stocking up funds for the war chest for the campaign to make that a public issue, because we feel basically the right to work is neither pro-union nor anti-union; it's just basically supporting the freedom of the individual. That's what our organization is about, freedom of the individual.

Bill 40 is coercive, not only to union people because they do not have the secret ballot or they are not allowed to walk off on strike if they feel like it; they no longer own their own labour. What the right to work is about is allowing the individual to own their own labour.

We have talked to Mike on various occasions in relation to Bill 40. We are in total support of elimination of Bill 40 because we do feel it's coercive.

The Chair: Thank you, Mr Chandler, for making your presentation before the committee this afternoon.

Mr Chandler: Our other stuff is in here, so you can just read through it. Give us a call any time if you want to tear a strip off us or something. We'd be more than happy to hear from you. Thank you very much.

INFORMETRICA

The Chair: Next is Michael McCracken, president of Informetrica Ltd. We have 45 minutes for you today.

Mr Michael McCracken: I've summarized my comments and I'll just make a few brief ones in light in the handout that has been provided to you.

You invited me here to speak to the group about the economic outlook, any comments on the budget outlook and also to provide any comments on the Fair Tax Commission report, which I've tried to do in a fairly brief form. I hope to not spend a long time on my formal comments and allow you to put the questions to me.

I'm not representing any group or small business groups or large business groups or labour or anyone else, but I guess trying to think of the tough task all of you have, whatever party you're with, of trying to understand where we go from here and what would make sense. So if I can shed a little bit of light from the limited information we have, I hope it's of help to you.

In setting a budget, one of the questions is, where are we in the economic outlook? I've been talking with you all now for a number of years. I think in the last four years, this is the most optimistic outlook that we've faced, for the year 1994-95: 3.5% to 4% growth for the Canadian economy for the two years; inflation remaining low, in the 2% range; nominal interest rates low, at least relative to what we have had; and declining real and long-term interest rates.

Unfortunately, even with a growth rate that sounds high by recent standards, unemployment will be declining only slowly. It's likely to stay above 10% nationally in 1994-95, given the pace of growth and a rather large backlog of discouraged workers, which we feel will keep the unemployment rate from declining or make it very difficult to decline without much more vigorous growth.

At the present time in the national economy there is a very large output gap, as we call it; that is, a large difference between what we are doing and the level we're operating at and the level we should be operating at if we had some notion of full employment or fuller employment. The estimates of that output gap at the moment range from something like 10%, if we were to move the unemployment rate down to the 7.5% to 8% range, to perhaps as much as 20% if one took a view that full employment is more like 4%, a level we haven't had in over 20 years.

If we grow around 3%, the gap essentially stays unchanged; we have to grow more rapidly. We should be aiming for real economic growth in the 5% to 6% range per year, or more vigorously, and we'll need to do that for a number of years before we can close the gap.

Ontario's economic performance, in light of this national forecast, is likely to be better than average. We would expect in 1994 and 1995 real economic growth to be about 4.5% each year in real terms. This should be reflected in improved revenue and, hopefully, enough growth to bring down social assistance, but at least to reduce the growth rate of it, and interest costs will be helped by lower interest rates as well. I think what we should be seeing is some growth improvement in the fiscal position of the Ontario government as well as of the federal government.

In terms of the budget, this may be one of the simpler budgets, in theory. The implications, I think, are rather simple: Don't do anything. You basically don't want to increase restraint and jeopardize the recovery. You want to do what you can to help growth, recognizing that you've got some constraints on your hands. I do express some concerns about what the federal budget will be. If they do move to some restraint, that's going to make it more difficult for the Ontario government, and if they do further offloading, this may create a problem of some magnitude.

1600

Essentially, the prospects for improved balance should keep the rating agencies from panicking. Lower interest rates should help. If there is some sense that interest rates are going to back up again in the US or in Canada, either linked or independently, then this also could serve as a constraint.

I understand yesterday you received some updated numbers from the Treasurer. I won't attempt to comment on those—I've not yet gotten my copy—but certainly they, if anything, strike me as a sensible, modest deterioration because growth has come in slower in the last year than had been anticipated, but certainly nothing that should cause anyone to run out and panic.

I chose on the FTC recommendation side in terms of my response to simply do them in—I read through the report fairly carefully, looked at each of the recommendations. If I thought it was a recommendation that made some sense, fitted with other work that I was aware of, I said nothing. So don't take the fact that I've only counted on a few of these as meaning the other ones are all bad. I would say, in general, I would think that you have in your hands a number of very useful recommendations with the Fair Tax Commission. I think that the study itself and the background papers that I've looked at are first-class: a good research base, a lot of time and care has gone into this and it's clear to me that this will be a very difficult body of work to reject in the relatively offhanded way that you heard a few moments ago.

I would offer some specific comments and I'll very quickly tell you what they are because even though I'm sure you've heard about these recommendations, you may not yet be down to the point where all you have to do is say, "Number 3, response 7." We may get to that point before long, which would make your task very easy, but the third recommendation was where Ontario would establish an essential agency responsible for maintaining government databases, comparability of these databases and publishing information about the public finance in

Ontario. There used to be in fact be a statistics Ontario, if you will, that was, about 10 years ago or eight years ago, chopped for economy.

The only thing I would add to the list of things that have been put down here is this group should also be involved in developing national and international standards for the reporting of fiscal information because it's very important that Ontario's progress and fiscal position be comparable to that of other provinces, other levels of government, and that we all earn some sense playing with the same set of information. A lot of work has been done in that way; it's not like you have to reinvent the wheel here. There are some things that are underway. There have been a few joint US-Canadian studies of fiscal presentations at the federal level and I think a lot could be built on. But I think it would be useful for that group to have the active participation of a provincial government where the particular problems of provincial government accounting could also be highlighted, and this particular committee might be particularly well-suited for making that comment.

Number 7(e) is the recommendation that one should publish an annual tax expenditure account. These are useful in that they bring tax expenditures to the same level of visibility as regular expenditures. My recommendation would be that given the propensities of people who have to do the work, they should be encouraged to do the provincial-only tax expenditures first, those that are peculiarities of your provincial tax systems, and not simply take 57% of the federal ones and publish the list. We already have that list. In fact, we just got an updated one last Friday, at the federal level, for the federal tax expenditures, which one could then quickly pick up the provincial implications for.

So get them to start working on some of the tougher ones: What does it mean to exempt food from the retail sales tax? What does a specific treatment or exemption or other activity mean in the other tax systems in the province?

Number 28 is a recommendation to take a look at the dividend tax credit. These are basically the wish-list part of the whole set of federal tax commission things they would wish the federal government would fix, useful to have, and indeed you may find more quick response on this set of recommendations than on some of the others in the next budget.

But in number 28, the question of the dividend tax credit is raised. The question mark I would just put there—as you perhaps are aware now, the purpose of it is to essentially account for the fact that under a standard system, dividends would have effectively paid a tax at the corporate level and now you're in essence trying to apply a second tax at the personal level. So it's to avoid double taxation of the income from dividends. A number of countries are in fact looking at the Canadian system with some envy and some interest. So if we're planning to get rid of this, we may find it's kind of like indexing in the federal system: We got rid of it the same year the US adopted it.

It is conceivable to me, though, that rather than using an arbitrary corporate tax rate, one could overcome some

of the concerns and abuses that are perceived here by using the actual taxes paid by the corporation and have that flow through to the dividend. This would at least bear some resemblance and if there are corporations that are not paying tax, then there would not be an associated tax subsidy or tax credit associated with their dividends. But I'll leave that one to you. Others would say, "Bump up dividends to the same level of interest and make them deductible and this issue goes away and then you would tax it in the same way you would interest payments." That's certainly feasible.

Number 46 is a discussion of payroll tax and indeed that whole section, recommending that "Ontario should eliminate the graduated rate structure...and replace it with a uniform rate of tax based on all remuneration." It occurs to me, we may want to think about a front-end exemption on the payroll tax. We're talking here about the so-called health tax, the one they wish to rename. The purpose of that would be to essentially turn the system into a progressive tax by having that front-end exemption. It also means that an employer looking at adding a person versus extending hours would face a situation where that was a somewhat more sensible choice. There would in fact be an incentive to bring on another one.

There may be some administrative issues with this. One may have to sort out just how you do this and you may want to find a way that's easy for reporting, not subject to any abuse. But the concept you're after is essentially an exemption of a front-end part and a continuation. This may well mean that you have to have a higher rate on the balance. That's not the issue. The question is, what's the signal that you're giving people?

Number 60 has to do with some comments on the comprehensive sales tax at the federal level. This again is a hypothetical issue. Ontario and the federal government five years ago were very close to having an integrated tax in the precursor to the GST; there were a few slips 'twixt cup and lip and that didn't get done. There is, I think, a spirit out there at the moment to say, "Let's try it again." I don't know whether it's going to get done this time around or not.

It would, however, have some advantages. In the recommendations that they are laying out here and I guess particularly in 60 but you could think of it as a whole group, I would ask you to reconsider, in your deliberations on this, insisting on zero-rating so-called basic groceries, prescription drugs etc. You may well want to go into those negotiations with a view of not having any unacceptable kinds of changes, because it may well be that we could get a greyhound kind of system out of that if we in fact said, "Let's not try to do our social engineering through the GST system," and do it through other devices. No exemption, no zero-rated system could well give you an extremely simple administrative system, an extremely fair system and one which would have minimum distortions.

1610

Similarly, with government of all ilk paying their taxes on this so that one doesn't have to keep track of who is the purchaser; all of that's feasible when it is a jointly managed system. We ought not to necessarily complicate

it at this stage. We can talk about that if you have particular questions on it.

We've looked at a number of different systems. We did quite a few simulations back in the 1980s on a joint system for the provinces, funded mainly by the provinces, so we're not unaware of what some of the issues are that come up.

Number 64 is a recommendation to put a tax "on all fossil fuels consumed in the residential, commercial and industrial, and transportation sectors based on the carbon content of fossil fuel energy inputs." My reaction when I first saw this was a desire on the part of the government of Ontario or the tax commission on behalf of the government of Ontario to recommend that they occupy some tax room out there.

I don't think it's one of the brighter ideas in here and essentially perhaps would put it to you this way. If you're going to do CO₂, which is a global emission that goes into the atmosphere and affects the climate around the world—and indeed the climate will be affected in Ontario, regardless of what you do, by CO₂ emissions elsewhere—one ought to see this at least as a tax that you should coordinate very carefully with other provinces and with the federal government. Indeed you might say, given the global nature of it, where the most effective way for example at the moment of coping with the CO₂ emissions may be to improve the quality of the coal generation system in China, that may be, from Ontario's viewpoint, the best payoff for a buck.

It would seem to me that there's lots of other problems in the environmental area that the province could focus their attentions on rather than this. There's nothing, in principle, wrong with tax measures for getting the signals right. I would say the ones that you're, at the provincial level, most concerned with would be those affecting the local and provincial environment, some of the air and water, solid waste, items which have a deposition in the region and an effect you might want to control.

The end of the world doesn't happen if you do that. This high correlation between energy and carbon content—and there's some reasons for trying to conserve energy and so on—so I'm not going to leave the province if you decide to go ahead with this, but it may be a bit of a waste of your skills.

Number 67, just a footnote when you're looking at systems for taxation of vehicles, particularly trucks: There is some evidence in the US that intercity use of roads and the wear and tear on those roads is related to the axle weight of the trucks and not just the proportional to it, but in fact in a very non-linear way by the square or the cube of it. So, if you are looking at systems based on characteristics of the vehicles, you may well want to take that into account. For the intercity movement, it means virtually no tax on cars for that purpose. You may have taxes for other purposes on them, their energy use. But if you're worried about road wear and tear, this axle weight squared or cubed would be appropriate. I think the people in the transportation system are aware of that. Whether it comes forward to you as a proposal remains to be seen.

Just two other quick points. On number 69 there is a discussion of user fees. User fees are a euphemism for

taxes, or if they're not, then it's because we can really relate that user fee to some service that's being delivered. If it's the latter, if it's a service charge for something that the government is providing, then the one thing you as legislators would want to ask is, is that price that's being charged for that user fee appropriate? In other words, is it a regulated price or is there competition? Is there some signal that we're getting that that is the appropriate price?

In particular what you want to try to avoid is that that price becomes a monopoly price. In other words, when you get some civil servant telling you the price he's charging is what the market will bear, that's when you want to kind of touch him up against the side of the head and say: "But that's not what we're after. What we're interested in is you charging a user fee associated with the marginal cost of that particular additional service, or the incremental benefit to the individual. We're not trying to turn some of what we have chosen to put together in, say, water and sewage systems into opportunities to extract monopoly rents from our citizens."

I would say also, though, if you're going to use the price system, use it. If you say, "I want to start charging for sewage and water because that will encourage people to use less water and sewage; I want to get the signals right," then for God's sake don't go trying to do social engineering through exempting particular people from paying that price. So, do not—read my lips, if you will, and you still may well ignore it—say, "If you're poor or old or handicapped or living in a rural area, we're going to not charge you this particular amount." Charge everyone an amount, let them make the decision to use less of it, and if you want to protect them because you've hurt them in some way, ie, the poor, for example, change social assistance by the amount that the average person in that group would consume.

Then you've got everyone working on conservation for you. You don't have the poor people sitting there saying, "I have no incentive to save." In fact, they have a very high incentive. They get the payment regardless of what they use and they can conserve and in fact get improvements in their position out of that. So you don't have two classes. It makes it a lot more simple to go down this road.

Number 97, just a final note on that: This is the recommendation that crown lands should continue to be exempt from local property tax but should be subject to full payment by the province in lieu of all local property taxes, based on assessment of similar property. I think that it's (a) a useful provision, but (b) you ought to encourage the federal government to play the same game. I think it's important for all levels of government to behave in a civil fashion, in both terms of the word, with each other. As you all may be aware, the federal government in the last few years had frozen its contributions in lieu of property taxes, to the great difficulty of offloading problems on municipalities.

Just attached to this are the most recent numbers. We're still in the process of freezing these, but they represent the latest information we have incorporated in here for you, a forecast of what the economy looks like out over the period through 1998. I didn't include out to

2020 because I thought that your horizon might not be quite that long as we approach a provincial election, but at least it'll get you through this one and into the next one in terms of the economic outlook.

Let me stop there. I always enjoy chatting with you and hearing your questions more than I do just talking with you. So who wants to shoot?

The Chair: We have about nine minutes per caucus.

Mr Phillips: I appreciate the thoughtful presentation, and actually this is probably the fourth year I've sat here. I think it's the fourth year you've been here, and there's a similarity to the presentations. You tend to be, historically and this year, at the optimistic end of the scale. If I understand your numbers for 1994, you're looking at real growth in the province of 4.6%. Is that—

Mr McCracken: Yes, and that's about a point higher than the province I think released more recently. It is internationally about seven tenths of a point higher than the Minister of Finance gave us a few months ago or a month ago, but I think you'll see a more up-to-date, more upbeat forecast from him in February.

Mr Phillips: Right. On the employment side, I think you're looking at 120,000 jobs next year?

Mr McCracken: Yes, on average year-to-year.

Mr Phillips: I think that's probably around 30,000 to 35,000 higher than the estimate we had from the minister yesterday.

1620

On the consumer price index, I think you're at 1.9 and you're a little bit higher, I think, than the minister's estimate.

In any event, none of this is different than in the past where, as I say, you've tended to be the more optimistic one. My conclusion from all of this is we're hearing from the economists bracketing the government's numbers. I suspect we'll have a few lower and a few higher.

Your advice is the same as your advice you gave us four years ago. I think your comment on the NDP's first budget, the \$9.5-billion deficit, was that that was a good idea and was something I think you felt quite supportive of. You were one of the few economists who were. In hindsight now, as you look back on that, I think an awful lot of people, including—I think even the Minister of Finance at one stage came close to acknowledging that that budget may have been—that maybe they should have acknowledged that there was a need for restraint and for not simply "fighting the recession" but for fighting the deficit. I happen to believe strongly we're paying a substantial price for that particular budget, which was in my opinion a mistake. But you've had a chance to watch it too. Do you still believe that that was the right approach?

Mr McCracken: What makes it a difficult judgement is to determine what else would have been different if you had not stimulated the economy in Ontario in 1990. If you didn't stimulate, you didn't go ahead and try to do some job creation at that stage but had just simply sat on your hands or indeed even moved towards more restraint, then, yes, you would have better-looking numbers today on the fiscal side but you would have higher unemployment and you would have had higher unemployment over

that entire period of time. So in that sense I would still say they did the right thing back four years ago.

Another possible scenario, and one that sometimes is implicitly there in the businessmen's minds or in others, is if the province hadn't stimulated at that point in time, the Ontario economy would have slowed down enough and gotten trashy enough more quickly, and Mr Crow would have perhaps not have continued his vendetta as long and the feds may not have gone towards more restraint to the same degree that they did.

In other words, someone else could have got the blame for trashing the economy, and we would end up exactly where we are today, because the feds would have done less damage because the province had chosen to do more, and what would be different is the provincial balance would have been in a bit better shape and the federal one a bit worse. But it would not have been a major change.

From that viewpoint, if you are provincial in your outlook, in both terms, you would have said: "Yes, we should have held tough. We should have moved to restraint and let the feds carry the can on the cyclical problems."

At the time, in 1990-91, in fact in direct discussions with Mr Laughren, which I think you will remember, I said to him: "What the hell are the feds going to do? If what happens is you go this way and they go this way, then all you've done is in a sense twisted the economy, there is no net progress, and what you've done is in some sense given a confusing signal out there in terms of, 'What do you want me to do? Do you want me to spend? Do you want me to save? Do you want me to hunker down? Do you want me to expand?'"

What we got—I think the failure to communicate is primarily from the feds to the provinces during that period—was people operating in opposite directions at cross-purposes, and no one won in that particular environment.

I'm very hopeful that that's behind us and that there will be a much healthier discussion between the federal and provincial governments now in Ottawa. Certainly, the experiences of the last few years should have shown the benefits of some chatting.

To some extent, let's say that at the present time it was a strongly held view by the federal government that they needed to restrain the economy, then that would be something the provincial Minister of Finance would want to know, because there is no point in his trying to go in the opposite direction unless he is convinced that he can stimulate in his region and let the feds pull back on other regions.

I'm not sure I would play it differently, Mr Phillips, but I think it really depends on what that alternative is. If we were coordinating policy at that time, one could conceive of a more sensible policy if the concern wasn't somehow that Ontario or Toronto was overheating, that a more clever approach might have been to say, "Well, let's pull back on that area, let's restrain that one area that we seem to be hung up on because of concern about inflation breaking out, and not disturb the rest of the economy."

It's conceivable that we could come up with such tax instruments that would do that. We could at least not spend money in the areas that are overheating and would have certainly helped control it. But we're not there, and I guess at this point the reason I'm not recommending restraint is that I feel we're not out of the woods. We have a long way to go to close the gap.

I have been criticized for the last 20 years in never saying "Exercise restraint" and always saying "Stimulate," and I must say that's true and the reason for it is we haven't had, in my view, full employment for 20 years. I do promise, if we ever get this economy operating in a decent fashion, that I will at some appropriate time say, "Now is the time to exercise restraint on the fiscal side." As I say, we haven't been in that position, including even the period 1988-89-90 when allegedly people were of the view that we had grossly overheated in Ontario. I wasn't convinced of that. In fact, I'm not even convinced today that overheating in a specific regional area is a problem we should be reacting to on a macroeconomics basis.

I'll try to make my other responses a little shorter so as to not eat into your thing, but that was a pretty general philosophical question you asked me as well, and I wanted to make sure you got a proper response on it.

The Chair: We're just about out of time for the Liberal caucus. Do you have anything further?

Mr Kwinter: If I could just get a short response. I see in your projections you show a very dramatic increase in dwelling starts in 1994-95—

Mr McCracken: Well, 1994-95 is up somewhat; much bigger in 1995.

Mr Kwinter: You're going from 58% to 93%. What is the rationale for that?

Mr McCracken: We basically have a period of continuing declines in real interest rates, mortgage rates. We have some improvement in real incomes of consumers as we finally begin to get employment picking up. We also nationally have vacancy rates, at least looking at housing in a rather broad sense, that are getting extremely low. We are indeed concerned that we may be pushing pretty hard on the housing front, and this is a response to that.

The normal amount required to match household growth is about 200,000, maybe 210,000 if you count the ones that burn down and are torn down, with the current levels of immigration we have. We've been running under that now for about four years, and particularly large shortfalls in 1990-91-92. That's basically the backlog, the low interest rate, the affordability, if you will, improving substantially and a sense, which will grow as each month unfolds this year and next, that things are in fact finally picking up.

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Mr Kwinter: One last, very quick question: Given the importance of the housing industry to the economy, why is that not reflected in the increase in the gross domestic product, when in fact you're showing a slight decrease in 1995 over 1994?

Mr McCracken: We are getting above-potential growth. We're getting 4.5% growth per year in Ontario,

so it is reflected. At the same time, we still have a problem of a consumer who is not as strong as we would like to see. The consumer still has real disposable income growing very slowly. Wage gains are not there hardly at all, essentially matching price change. The only gains in real disposable income are coming from employment increases. The tax bite is still there, holding down private disposable income. So 60% of the economy is hanging back a bit, and that's why it's not even more vigorous than what we should have here, but 4.5% growth would be more rapid than we've had in any year since 1989.

Mr W. Donald Cousens (Markham): I'm looking at the same charts. How do you come about it when you talk about your "workshop"? Is that just a nomenclature that you use internally?

Mr McCracken: No, we have a process. There was a forecast before this that we tabled with a group of people. We brought about 60 people together for two days and discussed the assumptions that we're making on the national side, on the international side, on the provinces. As a result of that, they say, "That's very interesting, but you ought to recognize, for example, that we don't think that commercial building recovery in Ontario is going to show any hope of change in 1994 or 1995. It's more likely going to be pushed out to 1996 or beyond; some will even say to the end of the century."

So we try to check that information, reflect it and incorporate that into the forecast. This is a continuous process. This has been going on on a provincial basis twice a year since 1980 and involves different people. It involves provincial governments, federal governments, private groups and associations. At the same time, information bases change every day.

Mr Cousens: So you're giving credit to the fact that it's a gathering of information you've gone through.

Mr McCracken: Yes, and it's an integrative process.

Mr Cousens: I'm looking at the investment that goes into machinery and equipment in 1993. There were big numbers back in 1993, and then 1994 continued to be higher than for a long time, and for 1995. One of the things that our committee has a chance to do in making recommendations is, are there any ways that you could suggest or recommend—and this is going beyond where you sometimes would operate. But I see that as one of the key indicators for us to get industry going and make Ontario competitive again, which is all our desires. If we're able to find ways in which the Minister of Finance can give incentive to more such investment, do you have any thoughts on that, because it really seems to me you're giving us a good message there, but I also want to reinforce it.

Mr McCracken: Sure. If you wanted to make it stronger, how would you do it? You can basically pump up the demand side, which will require businesses to say: "My God, I'm going to run out of capacity sooner than I thought. I need to raise my level of investment now to keep my position in the marketplace." That works usually pretty well. You can try to push them up by reducing the tax burden more generally or by more rapid write-offs on machinery and equipment.

Mr Cousens: Traditional things.

Mr McCracken: The trouble with that is it sometimes is like pushing on a string. It does help the people, but it's slow. In the US it was—and may still; it's off again, on again—we're suggesting a temporary investment tax credit on the margin, meaning you would get the investment tax credit only on the level of investment above the amount that you had the previous year, and that would only be for investments that you made, for example, in the next year or the next two years.

Some of the work I've seen on that in the US suggested it was a very good bang for the buck, because you didn't lose on all the infra-marginal investment and you could use a one- or two-year average investment of that firm as the benchmark, and it was temporary, so that it wasn't something you were locking in for ever. In Canada it's a little trickier for a province to do something that the feds aren't going along with in that area.

I think one other item is, if we do go to an integrated tax—none of us will want to use the term GST, so we'll call it, I don't know, an integrated BTT or something—to the extent, as it should be, that there's no cascading of taxes and that there are refunds on tax-paid inputs to business, then that will act as a substantial stimulus to machine and equipment investment as well, because you will not be paying the retail sales tax on machine and equipment in the first instance; you'll be paying it as you embody it in the goods and services that you sell subsequently. That turned out to be a fairly positive stimulus federally when the GST replaced the MST on the federal side.

Mr Cousens: I guess one thing I want to say, if we can through our research office—it's one area which has been brought out, and I don't see it in too many presentations and others that I've looked at—and when we're making our report we can come back and look at some of those numbers because, to me, there's an issue here where if we can inspire investors to continue that trend, which we have seen significantly over the last year and a half, into the future, it can be one of those things where, through the Legislative Assembly, we incent more such investment.

Mr McCracken: And not only do you get some jobs out of that during that period, you also get higher real incomes through a higher capital labour ratio and more productivity growth. The one footnote on that is that a lot of that machine and equipment is imported, and so the bang for the buck in terms of jobs is somewhat less.

Mr Cousens: What do you mean by "implicit deflator"? What is that?

Mr McCracken: That's like a price index but it's done by taking the current dollar over the constant dollar number. So the top three numbers you have there, in current dollars, the third line, the gross domestic product in the province this year is \$260 billion. In 1986 dollars, it's \$210 billion. The ratio of those two is 1.25, or, since 1986, you've had 25% of that increase accountable for by inflation. So this would be like a broad price deflator for Ontario, very analogous to the national GDP deflator. This one is provincial.

Mr Cousens: In 1986 dollars; that's the—

Mr McCracken: In 1986 dollars equals one, yes.

Mr Cousens: Gotcha. I appreciate your report. I wish we could all share the optimism that you're bringing. I look at those numbers at the bottom and I see the growth. You just start adding on and it soon accumulates. It's a really big help.

Mr McCracken: Yes, it helps. I should say that before the workshop we were about seven tenths of a point higher for Ontario. The effect of the consultations and the reactions and the discussions was to lower the outlook, not raise it. Ontario also, in this forecast, is likely to be the most rapidly growing province in Canada.

Mr Cousens: Our unemployment rate, how is that going to compare to other provinces?

Mr McCracken: Most of the western provinces will be lower. It'll be like a ski slope, starting lower in Alberta, Saskatchewan, BC, and rising gently until you get to Ontario, and then it'll be picking up rather rapidly through Quebec, the Maritimes and Newfoundland.

Mr Cousens: Is Quebec facing more unemployment?

Mr McCracken: A higher level. Probably in this recovery they will do fairly well but not quite as well as you and, as a result, their unemployment rate will come down somewhat more slowly than Ontario's. Basically, the engines of growth in this recovery are, foremost, exports, within that particularly autos. That spells Ontario. The other component that's very rapid is investment, particularly machine and equipment. Wherever that happens in this country, a lot of that investment is made in Ontario. So you get a double-dip from that.

Another way of putting it is, when we look at what happens to the Canadian economy with lower interest rates and a lower dollar, the one province that benefits most from either of those two moves is Ontario, and you've got both of those factors working for you, so any way you cut it—put it perhaps in the negative sense. If you don't make it here, folks, we've got a problem nationally. If you're pessimistic, that it's going to be 2% or 3% here, that will translate into numbers half or 1% lower nationally, and if you get below about 3% nationally, the unemployment rate goes up; it doesn't come down.

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Mrs Mathysen: I just have a couple of quick questions. You made reference earlier to not making any more cuts and I know that it was reported yesterday that there is expected to be a \$1.6-billion shortfall due to less PIT. Your recommendation to the Treasurer would be not to be rattled by that.

Mr McCracken: That's right. I would say, "Take a Valium"—or some generic version thereof, since people seem to be upset about C-91—and if we get the kind of growth that we're looking at, you should get that recovery. If you try to do something about that, you run the risk of aborting the recovery. If you know you're doing something dumb or inefficient or wasteful, we all agree, all-party agreement, we're going to cut that.

Given that we have done that, though, and we're sitting here with \$1 billion, the question is, is the sensible

thing to do to use that for deficit reduction, or should we find some better use for that \$1 billion? My recommendation is there are a lot of things I can think about that would be better use of that \$1 billion, whether that be in job creation, in education, in R&D, and on and on.

That's the way to think about it, is if you're going to go out and cut something, the status quo is never the right place; other people always think it's the right place, but it's generally not the right place. But at the margin, if you've made some reduction in an activity, then where do you want to move your resources to? So I have no problem if the Ontario government wants to change the mix of spending, in the same way that if you look at what the federal government is doing at the moment, it's changing the mix: cutting back on defence, raising it in some other areas, in infrastructure, R&D. But they're not changing the overall fiscal position.

I guess I'm saying to the Treasurer, don't get excited about changing the overall fiscal position; maybe focus your attention more on the mix. If you feel you have to do something, if there are some things that you're doing that are grossly inefficient, fine, stop doing them and spend the money over on these 78 items which no doubt will help you—and he may know what those are and if he wants them, I'll be happy to tell him—but don't try to get deficit reduction through discretionary moves on expenditure cuts or tax increases, because we've got a very fragile recovery under way, we've got a long way to go, we need lots of vigorous growth and it's better that you keep that moving and also that you don't give a signal to the federal government.

Let's face it: If the feds smell that the provinces are going to go do a tax grab somewhere, they get word of it and their budget's before yours, guess who's going to be in there first? Or even if you've gotten in there, they may come in later. In fact, look at our history in tobacco taxation, just to raise it as a point. The issue was not health; the issue was getting room. We had three or four years of an orgy of federal and provincial tax-stacking going on. They put the price up and Jeez, nothing seemed to happen; they put on some more, and "Nothing's happening yet." Then all of a sudden, we now have half of our population being scofflaws and some irritated smokers in the process.

Mrs Mathyssen: My second question—

Mr McCracken: I'm sorry. I'll try to be shorter.

Mrs Mathyssen: Oh, no, I appreciate your answer. I must say, I was a teacher and there was no such thing as a short answer to a question.

You were talking briefly about the equipment purchases and unfortunately, some of them being offshore. It reminded me of a comment that I heard from an economist yesterday that I found rather confusing. He was looking at the fact that our imports were up by something I think in the neighbourhood of \$415 million. I could be wrong on that, but it was quite significant. He said that's a sign of health; we're able to go out and spend all this money on imports. My reaction was, if we're spending it on imports, then we're not spending it on domestic goods that will create jobs here. How do you react to that?

Mr McCracken: In a general sense, with almost anything we buy in Canada, we're spending 30% or 40% of that dollar on imports somewhere down the chain. Sometimes it's more; sometimes it's less. Even when you buy a piece of machinery equipment made in Tulsa, Oklahoma, it will have some Canadian content in terms of the retail and wholesale margins, the distribution, after-service etc, so that tends to mitigate it. Yes, when you look at the monthly trade numbers or even the annual trade numbers, one of the reasons imports go up is because the sectors of the economy that have a high import content are expanding more rapidly, so it would be an appropriate indicator.

It doesn't mean that you have to be happy about it. One of the things you are looking always for is, are there opportunities to replace the imports you have with equally efficient options in Canada? I stress "equally efficient options." If we can make computers here as well as they do somewhere else, then why not? Now the problem is, they're not always equally efficient and we want to be careful that we don't try to create industries here or companies here providing machinery or equipment behind some protective wall.

Also, importing them has another thing that comes with it. That is, you may be importing, depending on what you're buying, state-of-the-art technology. This may give you an edge, so it's important to have that option.

Having said all that, one of the hopes is that as we do have a more global outlook in our companies in Canada, that increasingly, some of them will take on the manufacture of investment goods for the world and the state of the art, so that when we then also buy those in Canada, we'll be buying ones which are principally made in Canada. In essence that's what happens now with heavy trucks, that's what happens with a lot of the older kind of investment goods, where we tend to be somewhat weak in terms of having domestic content in some of the leading-edge computer software systems etc. Some of that we're overcoming.

We now have Digital in Ontario making a certain class of computer, so if we buy that class of computer in Canada, we will be getting state of the art and it will be domestically made, but if we buy class B or a different brand over here, then it may be coming in imported. But we're becoming better in that area. There's nothing at all wrong with imports. Imports give you that access to technology, they often give you as a consumer more choice, and they give you lower price. In some sense, that's why we import. We do that because we don't make those very well and we sell them things we make pretty well and we're both better off in the process. So it's nothing to get worried about.

Anyone who looks at the monthly trade numbers, by the way, and tells you anything is—just don't listen to them. Those things are so volatile they're all over the map, particularly at this time of year. If there's a freeze-up on a lake or a bridge that won't open, it can move the trade numbers around by a ship being one day late. So be patient; look at it over a three- or four- or five-month period. We've been doing very well, though, on exports relative to imports over the last 12 or 18 months. Thank

God we have had that source of strength in the economy, because most of the other ones have been pretty weak. Machine and equipment has not been too bad, but most of the other sectors have been pulling us down.

The Chair: Regretfully, our time has expired. I want to thank you, Mr McCracken, very much for making your presentation before the committee this afternoon.

Mr McCracken: It's my pleasure. In the future I'll always try to respond to it, even though it does have the danger of, as you repeat here, that people will sometimes remember what you said the year before and remind you of those forecasts. If any of you have any questions or individual follow-up you want, don't hesitate to call me. I'll be always happy to talk with you.

ONTARIO ROAD BUILDERS' ASSOCIATION

The Chair: The next presenters are the Ontario Road Builders' Association, Mr Barrett and Mr Ryan.

Mr Arthur Ryan: I'd like to read our short, standard brief. We come here every year and talk about the same issues. We try to address issues which we have some interest in and some knowledge of. We don't try to provide expertise in areas in which we feel we're not competent to do so. I'll read the brief and then we'll be delighted to answer your questions.

Introduction: The Ontario Road Builders' Association represents virtually all of the major firms involved in constructing and maintaining Ontario provincial highways and municipal roads. The association was formed in 1927 and now comprises more than 170 companies in over 50 communities across Ontario. Our members represent a large, labour-intensive industry, both union and non-union, working in an area which has had a substantial impact on the quality of life of Ontarians and the economic viability of the province. We welcome this opportunity to present our views to the Ministry of Treasury and Economics and trust they will be given due consideration in the preparation of the 1994 budget.

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Economic development: The roadbuilding industry is an important segment of the Ontario construction industry, which latter is the province's biggest industry, its largest employer, Canadian-owned—largely by small entrepreneurs—pays the highest wages and is the province's largest taxpayer. These facts cause our industry to have a substantial impact on all segments of our society. We fully concur with the Treasurer's statement that Ontario must generate the economic renewal that will create and maintain jobs, attract dynamic new investment and promote business confidence.

Economic renewal: The current government has consistently stated that economic renewal can only be achieved from jobs, training and investment. In these times of severe economic restrictions it is virtually impossible to attain these aims through normal economic and fiscal policies.

Deficit reduction: The concern with deficit reduction is laudatory. However, deficit reduction is not achieved only by reduction of expenditures or tax increases. Increases in revenue far outweigh the current commitment to cost reduction. Increased revenue for the most part can only

be created through increased employment. We feel very strongly that this administration must emphasize the job creation aspect of the equation to achieve any substantial reduction in the deficit. When revenues are increased through job creation, the effects are extraordinary. These increases have immediate impact on economic activity. The general confidence generated causes reduction in interest rates and, as we have seen in past years, sparks economic recovery.

Capital investment: Our industry is obviously very pleased that the government of Ontario has taken the initiative and made substantial commitments to infrastructure and building renewal in this province. There is no doubt in our mind that money spent on capital investment for new highways, new roads and new infrastructure in general has an immediate and extremely important impact on economic development in the province. We support the government's position and stance in announcing these programs.

We are fully supportive of the government's differentiation between capital and operating expenses. We support the formation of crown corporations to ensure that the differentiation is specific. Our concern is that the government should ensure that the formation of these corporations does not become a bureaucratic quagmire.

Infrastructure investment: The phrase "infrastructure investment" has today become a household word. From the new federal government's announcement a number of months ago on its commitment to job creation, and job creation based on a commitment to capital infrastructure investment, it would appear that there has been a philosophical change in the public's perception of the key to economic prosperity being deficit reduction to the more sensible approach to that particular problem through economic development and job creation.

For the past three years, and many of this committee here today have listened to our representations over those years, our association has maintained that the resolution of deficit reduction is predicated on the basis of cost reductions, but by far the most important factor of deficit reduction would be through a revenue stream, which can only be achieved by job creation.

We laud this current administration for its total commitment to differentiating between expenditures made for capital and operating, as we mentioned. Over the past years we have dealt, as an association, with many administrations. Each of these administrations has made varying commitments to job creation created by investment infrastructure. The current administration has followed through very strongly on that commitment.

The new federal government has announced a \$6-billion infrastructure investment, and indications are at this time that each of the provinces has been able to resolve significant concerns and commit to this kind of investment program.

Members of this committee may not feel as committed as ourselves to the implications of the benefits of infrastructure investment. We can only assure those members that we have been involved over the past many years with advisers from various sectors of the economic mainstream who have fully supported the benefits of

infrastructure investment.

A dollar spent directly in construction generates at least the same in terms of all the ancillary industries involved in that process. A dollar spent in construction means an immediate commitment to job creation.

A dollar spent in the manufacturing industry unfortunately needs much more lead time to generate specific economic returns in that industry sector.

The concern in this province today, and this may well not be reflected across the country, is a lack of confidence in the public as to whether there is commitment towards job creation and that they can feel some confidence in maintaining their present positions or jobs.

This committee's responsibility, as is the present government's, is to rebuild confidence in the Ontario public to ensure all segments of society are working towards the common goal of creating jobs, increasing prosperity and generally affording the stability of lifestyle that has been missing in the past couple of years.

Private sector involvement: In the coming weeks there will be announced by this government a massive highway project, the likes of which has not been seen before in this province. This will be the first time that the private sector has worked hand in hand with the provincial government to move towards the common goal of lifting this province from its current economic doldrums.

Our association represents a diverse group of contractors, probably 95% of the contracting industry in this province. Obviously, as an industry there are individual concerns that some of our membership may not benefit from this massive program, which at first blush may favour large contractors. We make this comment simply to explain to the committee that when commitments are made, whether it be by industry, labour or government, there may well be some negative undertones to that commitment. As an association, we believe we have resolved these concerns. We are totally supportive of a commitment for the private sector involvement in the upcoming major project which will be the building and tolling of Highway 407.

Our comments, in some sense, have been general, but we would appreciate specific questions from the committee relative to the forthcoming announcement of private sector involvement in building Highway 407 and the continuing commitment we trust government will keep in the coming years to work closely with industry and labour to achieve a tripartite resolution to our economic problems. Thank you, ladies and gentlemen.

The Chair: Thank you, Mr Ryan.

Mr Ryan: This is Brian Barrett, the president of Steed and Evans Ltd and also the vice-president of the association.

The Chair: I believe you made a presentation before this committee last year.

Mr Ryan: Yes, I did. That's right.

The Chair: We have about six minutes per caucus.

Mr Cousens: Thank you and I appreciate your presentation. I appreciate the positive nature of it as well and also agree with the sense of urgency and importance

in building the infrastructure, which really is something that we all have to see happen.

One of the questions—and I haven't had it updated for a while. For every dollar that is spent on building roads, how many dollars does that generate in other ways in the community? It has such a ripple effect. I heard once years ago that for every dollar you spend on road construction it generates five other ones, but is there a number that you know?

Mr Ryan: No. You know, these figures get bandied about so often, but generally I think the consensus is, it varies from—you know, different economists will go from either \$1.50 to \$1.80, I guess, realistically. So for \$1 spent, you'll generate another, say, \$1.75 perhaps in the rest of the industry.

But the key is, as we mentioned in our presentation, the immediate impact of that. Once a job is announced, right away you're creating jobs and you're creating additional, because our industry has suffered, not as much as the general construction industry certainly, but in terms of the downturn compared to the burgeoning 1980s perhaps we certainly felt it.

Mr Cousens: The positive impact of 407 is not unlike what the subway did to Toronto.

Mr Ryan: Very much so.

Mr Barrett: Yes.

Mr Ryan: To give you some specific numbers, and this is why our industry is so excited about it, in a normal Ontario fiscal year we would be looking at in terms of dollar volumes for the provincial highway system, not including the municipalities now, something in the order of \$375 million. This year, because of the Jobs Ontario Capital fund, which the government has committed to heavily—as you know, March 31 is the end of the fiscal year—we've already had, in the winding-down fiscal year, something in excess of \$500 million to date. So it's been a good year, exclusive of 407.

When 407 comes on stream, hopefully starting in April of this year but the next fiscal year—I'll give you an example—the project will total something in the order of \$2 billion just for 407.

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Mr Cousens: Over how long?

Mr Ryan: Over five years. It's an accelerated program. This is why we're happy about the private sector involvement. On the initial government plans that part was to be completed in the year 2015. Now the private sector's gotten involved, and I'm not saying that's the answer, but the generally accelerated program will now be completed by 1998, 17 years ahead of schedule. That's the forecasted construction time frame. It'll be close to that. The indications are that it will be close.

In terms of the volumes of work to do that, just dividing the \$200 billion over the span of five years, we're talking \$400 million, in addition to what the current provincial allocations will be. The government, even with the cutbacks in the operating costs and things of that nature, has maintained at this point—frankly they've done very well in maintaining the capital program and they've told us they will continue to do so.

Mr Barrett: The only comment I want to make is that Art is giving the impression that maybe there's a lot of work out there; potentially there's a lot of work. The other side of the coin is, municipalities are spending a lot less money in our industry and the private sector is spending no money in our industry. So our industry is certainly down, but we look forward to the 407 as being something that will hopefully lift us out of the doldrums.

Mr Cousens: Yes. I'm as excited as anyone about 407, and to the surprise of my colleagues across the way—to hear me celebrate 407, for them it's a rare moment. The speed at which it's going is excellent.

Can you comment on how you come together as the consortia—there's the Ontario consortia and the Quebec consortia that are doing the bid process and that's a separate subject that I don't want to get into—the way in which you're working with all members of your industry? What have you done there to bring this sharing?

Mr Ryan: I guess we just met and debated. It's just two groups, two consortia. Even we only realized frankly a few weeks ago who those particular members were. So we have board meetings and obviously we have people around the board who were involved in the consortium, which they don't discuss.

Other members are concerned that perhaps when these contracts are awarded, some of the larger contractors in our association would be the beneficiaries and the smaller contractors would be left out of that process. We've pretty well resolved that. There's no answer to that and there's no question that certain larger contractors will benefit enormously, but there's so much work out there.

Brian is right in saying they cut down in municipalities, but if the 407 goes through on schedule, there should be sufficient work for all of our industry, relatively speaking. That's all we can really say to the membership because there's no simple answer. We can't guarantee anything. We don't know what's going to happen.

Mr Cousens: Is there any way in which you can have a rating between Ontario's roads and other neighbouring jurisdictions' road networks? Because I hit a pothole this morning and it seems to be an increasing problem. I could drop into a real big one. How do you rate Ontario roads versus other jurisdictions? There's an increasing feeling that they're better in Kuwait, you know.

Interjections.

Mr Wayne Lessard (Windsor-Walkerville): That has nothing to do with the Road Builders, though.

Mr Barrett: No, but I don't think arithmetically we have measured it. I suppose the Better Roads Coalition could probably address that because they've done numbers that would indicate a percentage of investment in the infrastructure relative to the value of the infrastructure and that sort of thing. A personal impression would be that where we were miles ahead of the Americans 10 years ago, we're certainly not today.

Mr Cousens: That's my sense too.

Mr Ryan: That's exactly right. That's the sense that we get now. As Brian says, the Better Roads Coalition, TRIP as well, is another group that did some data analysis on the road systems. The standard of the high-

ways has dropped considerably since the good years when moneys were being spent. But every government has faced that problem.

Mr Sutherland: I guess I'm a little spoiled being in Oxford and all the work being done on the 401 there to six-lane it. You drive that section, you think the roads are in really good shape. I know Mr Barrett's company has been doing some of that work and it looks really good and has certainly improved safety concerns. I compliment the previous government for announcing going ahead with the project, and we've tried to speed that project up.

I want to ask a couple of questions about cost factors and some other quirks that all the members get asked about. The first is, what does it cost to do a kilometre or mile of road, a rough estimate?

Mr Barrett: That job we're doing is an \$8.5-million job and it's about three kilometres long.

Mr Sutherland: You're making that a six-lane highway, so that's a big difference.

Mr Barrett: Yes, and that's a relatively expensive piece of highway because there are about six structures in the three kilometres.

Mr Sutherland: Yes, bridges and things like that.

Mr Barrett: So it's probably below \$3 million.

Mr Sutherland: And a two-lane highway?

Mr Barrett: It would be dramatically below that. We don't price work that way, so it's a figure that I don't have in my head. We tend to price on unit prices.

Mr Sutherland: In terms of measuring quality of roads, what about the improvements in the industry in terms of the quality of asphalt etc? Are the roads we're building now going to be lasting longer due to those improvements?

Mr Barrett: Yes, I don't think there's any question about that, although I caution you that some of the work that the MTO is doing is experimental; they've had some failures in roads that are only a couple of years old and they've made changes based on that experience. But there's no question of the quality of today's product. It far exceeds what we gave you 10 years ago.

Mr Sutherland: And the labour intensity of your industry: I guess one would look at it on the surface and say most of the money goes into gravel or into asphalt." What percentage of the costs would be going into labour in roadbuilding versus say housing or so on?

Mr Barrett: I'm not sure what it is in the housing industry, but in our industry it's about 20%.

Mr Sutherland: Right, okay.

Mr Kwinter: Thank you for your presentation. I am very supportive of the work you do and I've always been an advocate that the economic wellbeing of Ontario is directly related to the wellbeing of its roads, and the whole idea that if you got it, you got it by truck. It's true, when you had to do it by road.

I have a concern and I'd really like your impression of this. One of the things Mr McCracken talked about, one of the things my colleague Mr Phillips is constantly talking about, is the appropriateness of the user fee.

When we talk about Highway 407, which I'm totally supportive of—I have some concerns about the toll aspect of it—the rationale by the government is that, "We can accelerate the construction of it and we really feel that those people who are using it should pay for it." On the surface it sounds like a logical response, but when you hear your association and others, the economic benefits that accrue to the whole province are going to be enhanced by the 407. People who do not use the 407 will still be benefiting from it, but they won't be effectively paying for it. I'm sure the total cost of the project will not be covered by tolls, but it's going to be a substantial component.

My fear is that the rationale is being used to sell the concept, but the real reason for the toll is to try to reduce the obligation of the taxpayers to a service that I think they should be obligated for. I have no problem with people getting very, very specialized services and paying for it, because it's not something that most people get. But on the other hand, when you're building things that I think are absolutely basic and absolutely a prime responsibility of a government, which is to provide an adequate road system, then I think that should be paid for by all of the taxpayers, because all the taxpayers will benefit, regardless of whether they're actually travelling on that highway or not. Any thoughts about that?

Mr Ryan: Yes, I'd like to address that. That's been given a great deal of thought, and not just by our association, because it's not our mandate to take that position. But in all the publications relative to toll-road funding, that issue has always been addressed.

I believe—but I'm not sure, because the proposals being made by these two consortia, nobody knows why they came up with it at this point—but certainly that kind of thinking is incorporated in their presentations; I'm sure of that, because there's a concern there, exactly as you say, that the fact that a toll is just to be funded by the user of the system, there are a lot of other beneficiaries besides the user of that particular system at that time. So I think in some way that that is being looked at. What the outcome is for that, I don't know.

In Europe some tolls are constructed on that basis; in other words, the toll revenues have been brought into general funds, but the governments in those particular countries have charged everybody some portion of a fee. I don't know what the methodology is, but the economic benefit of that tolling system has been charged through some other means within the government revenue stream. I think it's a common approach in the sense that it's looked at, but what the answer is, I don't know.

The other thing about 407 specifically is that—and again, it's always part of the proposition when tolls are discussed—there's a lot in the route. One of the reasons that the public has accepted it, in the sense that there

have been a number of polls taken—of course, it's relative to how the question is asked, but there seems to be a general acceptance by the public of the 407 being a toll road as long as they have access to the 401, which will be an alternate route that they can take without having to pay any tolls.

I know the trucking association and the automobile association—particularly the Toronto section of the automobile association, because it takes various positions in various cities—the Toronto CAA is supportive of tolling the 407. The trucking association is supportive of tolling the 407 only because of the fact that the people will have an alternate to take.

I haven't given you a very specific answer. I know what your question is, and all I'm saying is I think it's looked at and it's attempted to be addressed, but how it will be specifically, I don't know on this, because we feel the same way. There are economic benefits which far outweigh the fact that somebody is dropping a couple of dollars when he's riding on the highway.

Mr Barrett: There's always another way of doing it, and that would be a fuel tax increase that would be a broader user pay than just tolling the 407. It would hit all drivers and only drivers. Of course, today nobody wants to see any tax increases, so that's not very acceptable.

There was a poll done by the Canadian Construction Association recently as to whether people would prefer tolls or a general tax increase to pay for roads. Something like 60% or 65% preferred the tolls. The reason given was they felt that the tolls would be dedicated, and a general tax increase would go through some bureaucracy that would use up a lot of it before it ever got back to whatever roads, or whatever it was going to be used for. That was an impression people had, that at least with tolls supposedly every penny went directly for the road.

Mr Kwinter: Is that in fact the case, that this toll is going to go directly to the road, or is it going to go to the consolidated revenue fund?

Mr Ryan: The tolls will be going to the consortium, to the private sector.

Mr Barrett: Yes, to pay them back for building it.

Mr Kwinter: Is there going to be a government tax on those revenues, GST and things of that kind?

Mr Ryan: I don't know. Right now all these two groups have been asked for is to make what they call a value engineering proposition to build the 407, and at this point that's all anybody knows. The ministry is right now going through voluminous reports and submissions.

The Chair: Thank you, Mr Ryan and Mr Barrett, for making your presentation this afternoon.

We stand adjourned until 10 am Tuesday next.

The committee adjourned at 1715.

Continued from overleaf

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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*Phillips, Gerry (Scarborough-Agincourt L)

*Sutherland, Kimble (Oxford ND)

**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Carter, Jenny (Peterborough ND) for Mrs Haslam

Morrow, Mark (Wentworth East/-Est ND) for Mr Wiseman

Turnbull, David (York Mills PC) for Mr Cousens

Also taking part / Autres participants et participantes:

Crozier, Bruce (Essex South/-Sud L)

Jackson, Cameron (Burlington South/-Sud PC)

Wiseman, Jim (Durham West/-Ouest ND)

Clerk / Greffière: Mellor, Lynn

Staff / Personnel: Campbell, Elaine, research officer, Legislative Research Service

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Comité permanent des finances
et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday 25 January 1994

The committee met at 1007 in the St Clair/Thames/Erie Rooms, Macdonald Block, Toronto.

PRE-BUDGET CONSULTATIONS
ROYAL BANK OF CANADA

The Chair (Mr Paul R. Johnson): The first presenter this morning is Mark Chandler, representing the Royal Bank of Canada.

Mr Mark Chandler: I understand you have a busy day over the next few days. This is the fourth year I've been here and I guess we will proceed along the similar sort of format that we have in previous years, talking about where we see the Ontario economy and national economy and some of the implications that we expect it to have for Ontario's finances.

I'll just start by saying that in terms of our outlook for the past year, things have been weaker than what we had expected. But even given that weakness, I think it's fair to say the sort of deterioration you've seen in public finances above and beyond the weakness we've seen just in GDP growth and the unemployment rate and retail sales and so on—so we're quite concerned in terms of public finances right now for Ontario.

In terms of where we see this year and next, I'll give you our view on where we see the global economy, the US, Canada and Ontario. I'll try to keep it brief because I think what you'll find is that our forecast is going to be pretty similar to some of the other ones that you hear and that you have heard and that you will hear over the next couple of days. It looks like you spread out some of the forecasters this year, more so than in past years, so maybe you can only take it in small doses. Essentially, where we see things is not too much different than treasury sees things for Ontario. Therefore we would expect, given this sort of outlook, that their forecast for revenues and expenditures would appear reasonable based on the inputs that go into it.

Essentially, what we see in terms of growth this year is better growth in North America but still weak growth worldwide. Growth in the US is expected to be about 3% and growth in Canada, for the nation as a whole, is expected to be 3.9%.

The one thing that's different now, for example, than what we saw in 1983 is that there's not a great deal of coordination in terms of growth around the world. We expect to see quite weak growth in Europe, for example, only 0.5% on average this year in Germany, and very weak growth in Japan as well, 0.5%.

The good news from that sort of outlook is that it should prevent a sharp upward rise in interest rates as the world gets back on track. In particular, with inflation low worldwide, we don't see bond yields under much pressure to rise. In fact, in most countries you'll see them coming down and we expect that to be the case as well for Canada. So that's good news in terms of the cost of financing the debt.

The flip side of that is that commodity prices are expected to increase only marginally. Typically, an increase in commodity prices is good for Canada as a whole, although for Ontario it's a question whether it's good for the provincial economy.

In this kind of outlook we expect to see Ontario and Canada doing reasonably well in terms of the external sector. That's export growth, which really picked up, particularly towards the latter half of last year, should continue to do quite well this year.

We're seeing that in the manufacturing sector. If you take a look at shipments and new orders in manufacturing, they're up in excess of 8% in terms of year-on-year growth. Manufacturing employment's up about 1.8% from a year ago and the profit picture for those industries is starting to look a little bit better.

A lot of that is driven by increased demand in the US, in particular increased demand for consumption goods and autos. We see that continuing through 1994. Given the importance of auto sector for Ontario, once again that's a pretty good sign.

The bad news is that while we think that the Canadian dollar and Canadian labour costs now are quite competitive compared to most overseas economies, with the weakness in demand in those countries, we won't be looking for much of an increase in exports overseas. So we're going to have to wait until we see better demand in those countries.

When you start to add it up, you see that this year for Ontario, we will not expect to see a banner year in terms of growth but some improvement. Real growth is expected to be 3.9%, and not much on the inflation side, so nominal GDP growth should be slightly in excess of 5%. We see a similar sort of thing for the consumer, with retail sales only up about 5% this year before advancing in excess of 6% in 1995.

In terms of the employment market, improvement there will be slow. We see the unemployment rate stuck, on average, at 10.5% this year and 9.3% next year. That's going to continue to put some pressure in terms of the expenditure side on Ontario's finances.

Again, on balance, the outlook for economic activity in Ontario is little different in substance from that forwarded by the Ontario Ministry of Finance late last year.

In terms of the implications for financial markets, we expect interest rates will remain low this year in spite of a modest increase in US interest rates as we head forward over the course of this year. On average, the three-month treasury bill rate is expected to be 3.85%. That's down more than a full percentage point from last year's average of 4.9%, and a similar sort of full percentage point reduction can be expected in long-term yields.

This outlook would suggest some cyclical improvement in Ontario's finances. The problem is, the improvement's going to be pretty slow, and of particular concern is the

fact that the unemployment rate remains high.

The most recent figures for Ontario placed the deficit for the current fiscal year at approximately \$9.5 billion, up from a projected \$9.2 billion from last year. Last year's budget called for a reduction in the deficit in fiscal 1995 to \$6.8 billion. I think it's fair to say that we're going to have a lot of problems trying to meet that sort of target this year. The way things are going right now, the deficit will be closer to the \$9-billion range.

That brings to light the question: How long can we sustain these sorts of deficits? For the nation as a whole, a couple of points bear notice. One is that Canada as a whole still has a chronic savings problem. Deficits and debt as a percentage of GDP is extremely high relative to most other OACD countries. The fact that we've been borrowing for an extended period of time suggests that it's getting to the point now where, if we don't do anything over the next couple of years, we're going to have to look at some more dramatic cuts being imposed upon us, either through something happening in financial markets or externally. Really, I think what we have to look for in the next couple of years is to try and look at reasonable ways we can do it ourselves, without having it imposed upon us.

Just as a personal aside, I think the C.D. Howe report that was released recently in terms of what it suggests for getting the deficit down is pretty reasonable. I agree with the fact that the baseline scenario will not suggest that there's going to be an imminent crisis; it builds up over time. But if something goes wrong in terms of a steady economic outlook, the probability of a debt crisis increases quite dramatically.

Their proposal is a four-year freeze on program expenditures, and if you just do back-of-the-envelope calculations with that, it's reasonable to assume under that sort of scenario that you could get the deficit down to, say, \$6 billion in fiscal 1996, about \$4 billion in fiscal 1997 and about \$1.5 to \$2 billion in fiscal 1998. That assumes flat program expenditures, debt charges will increase, and it assumes the capital expenditures laid out last year in the budget plan.

If you look at some of the comments that are made by debt rating agencies such as Moody's and Standard and Poor's, that would be the baseline forecast that they're looking for when they look at the debt rating of the province. So I think that's something the province should look closely at in terms of where we go from this point forward. That's basically a minimum.

If you want to have increase in program expenditures instead of having them flat for four years, look for a marginal increase. Then you'll have to look at doing more on the expenditure side, and on that side I have a little bit of concern. I think it may prove self-defeating in terms of the revenues generated from further tax increases. That's about it in terms of my comments on the implications for the finances from the Ontario Economic Outlook.

We're asked to give any thoughts that we might have on the report of the Fair Tax Commission. I don't have anything in particular prepared, but I have read the report fairly closely and I've got some thoughts on it.

There are a couple of things that we should keep in mind when we look at the recommendations from the Fair Tax Commission. One is, you've got to keep it in context of where Canada stands and with the foreign-debt-to-GDP ratio right now of about 48% of GDP, that's far and away the highest in the G-7 countries and one of the highest for all the industrialized world in terms of foreign debt to GDP.

We have a chronic savings problem within the country, so any tax measures that Ontario may be considering, either unilaterally or with the federal government, should keep that in mind. In particular, they should not be an incentive to dis-save. If we're changing the tax structure, we should keep in mind that what we should be trying to do is encourage that saving.

The second thing is, given the performance of the economy over the last couple of years, we have a serious problem in terms of our labour market and an extremely high unemployment rate. Against that sort of backdrop, what we should keep in mind is that there should not be incentives against employment and against hiring.

For those reasons, I have some concerns about the suggestions in the Fair Tax Commission about increasing the personal income tax rates and shifting some more of the revenue emphasis on to the personal income tax. I think that shift in the tax structure on to the personal income tax base could be self-defeating.

One of the things the Fair Tax Commission mentioned is getting rid of the exemption for small businesses as it relates to payroll taxes. I think that once again that wouldn't be a prudent approach, given the fact that our unemployment rate remains so high. So it really kind of ties your hands.

A further point in terms of the Fair Tax Commission report: I have some concerns about the shifting—this is part and parcel with what we said in the personal income tax base—from property taxes to increases in the personal income tax base. Strictly from a revenue standpoint, the property tax has some things going for it in terms of it's a relatively immobile tax base, and while it may not be a progressive tax, it seems from the work that the commission has done that at least it's a neutral tax, and I think there is some wealth component there that would suggest it's favourable from a fairness or equity standpoint. I have concerns about shifting in general from a property tax base to a personal income tax base.

That doesn't mean that it should negate what the Fair Tax Commission said in terms of education, moving away from having the property tax base earmarked specifically for education. Those two recommendations need not go hand in hand.

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That's it in general in terms of some of the implications from the Fair Tax Commission report. There are 134 recommendations, so I won't comment on them all, but I'd be happy to address any questions you might have on some of the specific recommendations in the report.

The Chair: We have about 10 minutes per caucus. We'll start with Mr Phillips but, just before we do that, if you could turn to the Ontario page, right at the very

bottom, it's got the consumer price index. Is that just a typo, where it goes from 1986 dollars being 100% to 1987 dollars being 105.1% and then below that 5.0%? Shouldn't that be 5.1%?

Mr Chandler: Yes. It's just rounded.

The Chair: I was just curious, that's all. Mr Phillips.

Mr Gerry Phillips (Scarborough-Agincourt): I was going to ask the same thing.

The sort of net take-away from you is that in terms of the economy in 1994, I think you were right about at the average, it looks to me. You're predicting around 3.9% real growth. Others are a little bit lower than that. I think the government's estimate is 3.4%. You're looking at the labour force growing by 1.6%, which I think is about 85,000 people—that's what that works out to—and the number of jobs growing by 93,000, I think, so the number of people unemployed will drop by about 8,000, I gather. I think you've highlighted the challenge for us, because even with quite good job growth, it is essentially just matching the labour force growth, so the unemployment rate stays very high. Your numbers are, again, about where the government is, I think, on that.

You do, though, just in detail in 1995 have a much lower labour force growth than other estimates we've seen, where I think the government is much more at 2% labour force growth and you're at 1.2%. That accounts for the big drop in the unemployment rate. Why would you show a much smaller growth in the labour force than others are doing?

Mr Chandler: That's notoriously difficult to forecast, as it depends on participation rates and, as you know, when the economy starts picking up some people come back into the workforce and also it depends on migration rates. I would say that either one, 1.2% or 2%, is a reasonable forecast. The thing to take away from it is that an unemployment rate in the range of 9% to 10% is not unusual.

Mr Phillips: Okay. I think we around here feel that there are 150,000 to 200,000 people who have dropped out and the history suggests that when the economy picks up, they begin to come back in and that's why I think the government is predicting the labour force growing much faster than the 1.2%.

Mr Chandler: That's a fair comment.

Mr Phillips: We get conflicting signals from the financial community. On the one hand, we often hear what we've heard today about the debt crisis and we're getting close to the wall and that sort of thing. Then today's paper shows that the bonds that the province issued yesterday, I guess, were extremely well received around the world. Sometimes that says to people who look at it that the real litmus test is how the financial markets respond to Canada's finances or Ontario's finances and they seem to love it. How do you explain the kind of dichotomy? Even your message today was, "Boy, you in government better recognize how close we are to the wall."

Mr Chandler: If you take a look at what's happened with countries in the past when they have experienced problems, it doesn't happen in a gradual fashion. If you

look at what happened in Italy, New Zealand, the UK, when they had fiscal crises, three or four months before they occurred you wouldn't have been able to tell from their bond market that it was imminent. I think there are a couple of things going on right now that might—bond reception might look good.

One thing is bond markets worldwide are on a very good roll, and for good reasons. So when you look at the reception to that issue it looks good. The other reason is that I think the province has done a fairly good job of being creative in terms of the sources of their financing, but in some sense they're shooting their own foot. As the success of their debt program grows, more people are attracted to using the same methods of financing: the global bonds and the medium-term notes and so on.

Mr Phillips: What was the second one you said?

Mr Chandler: Medium-term notes and facilities and so on. This is something that Moody's addressed, actually last week, when it was in town, that it's looking for broadening the base in terms of, "Who can we get to support our external financing?" Other constituencies are looking at the same thing and the competition for those dollars is going to be tough. It could just be that the reception was good because, given that window of this month—part of it's due to the stability and strength of the Canadian dollar since the end of last year—they had an appetite for Canadian dollar issues.

I wouldn't look at an individual issue and say from that that we can determine that people aren't concerned. A lot of the people who pick these up pick them up with the idea that there's going to be a secondary market and they're going to be able to get rid of them if they choose to.

Mr Phillips: Are we running any risks we should be concerned about on the amount of offshore borrowing we're doing?

Mr Chandler: Yes. It's a very serious concern. As I said, if you look at Canada's external debt relative to GDP, that's really where we're out of line with the other major industrialized countries. If you look at our federal debt and even our combined general government debt, it's large but it's not large to the same degree as our external debt is. The problem is that we've been running these debts and deficits and we haven't been able to finance a lot of them internally, so that heightens the chance that what you're going to see is some crisis in the foreign exchange market and through that through credit markets in the price that we pay on our debt. So yes, the big concern is that we're not financing it internally.

Mr Phillips: Has the spread that Ontario pays on its bonds stayed pretty much the same over the last few years versus the Canadian?

Mr Chandler: I don't follow it on a regular basis; I follow it on an irregular basis. But the last time I looked at it, it's narrowed. I think with bond yields falling across the world, a lot of people are looking for that little extra yield pickup that you see, so there's been a flood into emerging markets, there's been a flood into corporate issues and so on that have narrowed the spread and there's been a flood away from national debt and into the

provincial debt and so on. So I think provincial spreads as a whole have narrowed. Part of it reflects the fact that cyclically, we're also going to see some improvement on the deficit.

Mr Phillips: The debt per family in the province now, when you take the federal and provincial debt, I think is about \$75,000, roughly speaking. I think the challenge is that none of us ever think we owe that; somebody else owes that money. From a banker's perspective, what kind of income do you have to earn to service a debt of \$75,000? If I were coming to you for a loan, what would you look for? I'm trying to get an idea of what families are going to need to service this debt in the future.

Mr Chandler: Our mortgage people would have a good example of that, where they look at it, but typically a rule of thumb has been 30%. Your interest payments can't exceed 30% of your income. I think a way to look at it in terms of the national economy is to take a look at what we're paying away in terms of interest payments. Can we afford to continue that? It's about 4% of GDP, which is extremely high, that we pay out in the current account detail, that we pay out in interest payments on our debt. We're going to have a lot of trouble trying to close that savings imbalance that we have as a nation.

1030

There's been no country that over the years has been able to run continually the current account deficit of 4% of GDP that we currently have. There is some evidence that a current account deficit in the range of 2% can be run for an extended period without "dire consequences." So we have a ways to go in terms of closing that. Sorry I can't give you an exact answer. It would be best to talk to bankers themselves and get a rule of thumb on that.

Mr Gary Carr (Oakville South): Thank you very much for your presentation. As always, we enjoyed it. My question is regarding some of your figures here. As you know, the government announced, with the federal government, the infrastructure program. Was that included in these numbers? Did you factor that in?

Mr Chandler: No. This is very much back of the envelope. What I did was just take what was in the budget last year in terms of the capital expenditure plans.

Mr Carr: So you're going to revise the unemployment figures downward as a result of yesterday's announcement?

Mr Chandler: I don't think you can do it on a one-for-one basis.

Mr Carr: So what we're talking about with what was announced yesterday won't change any of the numbers in terms of growth rate or unemployment; we're just scratching the surface with that program? To quote Mr Manning, we're trying to start a 747 with a flashlight battery.

Mr Kimble Sutherland (Oxford): You like quoting the Reform Party an awful lot, Gary.

Mr Carr: Is that the equivalent of what we're doing? Is he correct with that or is he wrong? Is that what we're doing with this program that was announced yesterday?

Mr Cameron Jackson (Burlington South): He's quoting Karl Marx, guys.

Mr Chandler: We can't kid ourselves in terms of where employment growth is going to come; it has to come in the private sector. I think you get the biggest bang for your buck by improving the incentives to employ people. If you turn it on its flip side, what's been the most damaging in terms of employment growth may have been the increase that we've seen in payroll taxes recently. I think any government capital expenditure program is going to be very limited in terms of the full-time jobs that are created over time.

Mr Carr: We'll probably see a rash of ministers and the Premier and probably even members opposite out cutting ribbons at these various projects. One of the things that was said in the last federal campaign—

Interjections.

Mr Carr: I probably won't get asked to do any of those; I never do. But when they were announced, one of the things that Mr Chrétien said in the campaign was regarding consumer confidence. He said, "When people see the cranes, they will go out and spend money." I think there will be a tremendous amount of publicity for this, because it will be fairly high profile. The Premier will be out there with Art Eggleton. Will it do anything for consumer confidence? Is Prime Minister Chrétien right that people will now feel good and start to spend, or is that something where we're just playing in the margins and consumers aren't going to run out as a result of this spending program and thinking things are getting better?

Mr Chandler: Oh, no. Most of the changes in consumer confidence, if you look at what determines it, you can take a timed series of income growth and employment growth and that will explain almost all the variation in consumer confidence. So if you get the income growth, you get the employment growth, that's what's going to lead to changes in consumer confidence. If you get onetime shots that are associated with things like—we saw it at the end of the Gulf war in the US, where there was a one-shot increase in consumer confidence and that came away quite rapidly. So the sort of public events that are associated—you know, you look in the paper and you see the cranes—are not going to lead to any substantial change in consumer confidence.

Mr Carr: I wouldn't be as opposed to some of it if there were other initiatives, like the payroll tax, looking at WCB, looking at all the other things, but there aren't. This seems to be the whole initiative. So let me ask you this: If you were the government, would you be spending the money that they're going to spend on a program like this to create jobs?

Mr Chandler: I think the number one priority for the government is to hold the line on taxes and keep to the expenditure program.

Mr Carr: Is that a no?

Mr Chandler: I can't comment on the specific program. It's up to the legislators to decide how the pie is cut up. The point is, if you want to have lasting effects on consumer confidence and employment and income, make sure the pie grows at a reasonable rate.

Mr Carr: I understand that the bank still has to be careful of what it says about governments, particularly

with your title and so on.

Regarding the unemployment figures, people don't remember that when this government took office the unemployment figure was only 6.3%. I remember sitting in the Legislature when the Treasurer got a standing ovation. They were going to spend their way out of the recession. I look at the unemployment situation. They spent their way out, ran up the deficit and the unemployment situation got worse.

Looking back on the famous first budget and so on, and of course everyone was critical at that time, hindsight being what it is and as an economist, was the government successful in fighting the recession with that first budget which ran up the deficit?

Mr Chandler: I don't know. It's hard to attribute it. It certainly wasn't a major factor behind the recession. The recession was felt everywhere. I think if you want to look back and learn some lessons from what we saw over the last decade, in the middle part to the late part of the 1980s we should have been running surpluses and we weren't and it tied our hands. We're still at a level of expenditures that is above the trend line if you look back over the last decade or decade and a half. I think it was ill-timed really to do that. They didn't understand the seriousness of the problem.

Mr Carr: There's no doubt when we had the big expansion we still spent double and triple the rate of inflation during the mid- to late 1980s, which was bad.

A question regarding taxation: As you know, the Treasurer said he's not going to have any net increase in taxes, but as socialists they believe in rearranging it and making different groups pay more. I don't want a comment whether that's right or not, but one of the problems we've had dealing with the underground economy is when you shift it people find ways of avoiding it.

I don't want your comment on whether that's a good thing to do, to social engineer and take more money from some people and help the poor and so on, but when you're trying to take money away—and I think that's what their whole proposal is in terms of shifting the tax—knowing the economy the way it is, knowing that people can move money in this day and age very quickly to other jurisdictions, if they take that route through the Fair Tax Commission and try to shift the burden—ironically the shift seems to always fall on the middle class—but if they do that, will they be successful or will people just move their money into other jurisdictions and they'll end up with less net taxes like we've seen over the last couple of years?

Mr Chandler: As I said in my comments, I think it's important to keep that in mind, that there is a lot of shifting and tax avoidance. The biggest capital is particularly mobile and we have a savings problem. So if you're trying to tax more savings, I think that will in the end prove self-defeating.

I think what you should be doing is talking to the Ministry of Finance and getting pretty good estimates on exactly how much shifting does occur when tax rates move. I don't think we have a good handle on that. That's why once again in my submission, I have some

concerns with moving away from the property tax base because obviously that's something that cannot be shifted that easily, even though from an equity consideration it may prove to be the best thing to do. From an efficiency and revenue standpoint, it's going to be extremely hard to replace.

Mr Carr: The only comment I would make in summing up is, I agree with a lot of what you said. I hope the government listens.

Mr Sutherland: I have two questions. First of all, you made the comment that only the private sector can create jobs, but I think even you would admit that by itself there is benefit for governments to participate. I think of the expansion of the Metro Convention Centre. In terms of that type of expansion, public investment in partnership with the private sector in terms of the benefits for hotels, restaurants, the hospitality industry, tourism, where you can see some mutual benefit in terms of public investment and the government helping not only short-term jobs but helping to reinforce longer-term jobs in those other sectors, I would like your comments on that.

The other question: We've had a few other forecasters in and while everyone has talked about concerns regarding deficit and concerned about not increasing taxes, at least two of them, the Conference Board of Canada and Mike McCracken from Informetrica, indicated that you must be wary of how you go about deficit reduction, that if you do too much at once, you may have more of a negative impact on the economy than doing a gradual reduction over a period of time. So if you could comment on both those two.

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Mr Chandler: In terms of the first one, I'm not quite sure how to answer that. It is true that direct public spending will do something in terms of creating jobs and obviously there's a role for government to play in terms of that, but I think in some senses you kind of miss the forest for the trees.

If you're looking at what will help tourism in Canada, obviously things like a competitive level for the dollar and better income growth get people to travel. If you look at what the determinant of travel is, it's income growth. Income growth and making it affordable are far and away more important than one individual facility. I don't want to say that it won't create jobs. Obviously it does, but you've got to look at the whole picture. If you don't do anything to create that income growth, employment growth, and get people to afford to travel, you're not going to have anybody filling up those hotels and convention centres. But that's not a specific comment.

The other part, about how do you go about reducing the deficit, it's a legitimate concern. You can cause some damage if it's mistimed, and timing's incredibly hard to pick. You can't time when your expenditures will be in place to help relieve the recession because you don't know when it's going to come and you don't know when the impacts of the spending arguably are going to be felt. So the timing issue is very important.

If we had the room to manoeuvre, you can also make the case that maybe we can continue to run these deficits,

but just if you look at where other countries in the past have gotten into problems with their debts and deficits, we're approaching those levels. When you see accumulated debts over 100% of GDP and foreign debt in excess of 50% of GDP, you'd be hard pressed to find countries that were in that situation that didn't have that debt crisis that forced a more dramatic cutback in the deficit. So I'm saying, let's take control of it now.

Mr Sutherland: Okay. The advice we've got from all the forecasters is that we do need to take control of it. I think the forecasters said they would be looking to see, both at the federal and provincial level combined, a few billion dollars being reduced versus some who suggest that we should at least provincially go to a deficit of \$2 billion, \$3 billion for 1994-95, and saying that would take too much out of the economy at once and that would be too dramatic an impact, that in the long run you'd have more of a negative impact on your recovery by such a dramatic decrease at once rather than a planned, gradual decrease over several years.

Mr Chandler: Yes, and I think the C.D. Howe did a pretty good job of looking at that with its report. Their recommendation was the government freeze at the federal and provincial levels in program expenditures for four years and it didn't involve aggressive tax increases, and with that, you have a pretty good chance, certainly a very good betting chance, of avoiding any kind of debt crisis.

I don't know the probabilities they came up with but once again, I think within three years you'd be up above 100% of GDP in terms of combined debt and above 50% of GDP in terms of foreign debt. I don't know if you could find a case of a country that got through that. So it would have to be done; you'd have to get the deficit down to that 3% to 4% range combined within a few years if you were going to avoid that sort of scenario.

The Chair: Thank you for your presentation.

ONTARIO RESTAURANT ASSOCIATION

Mr Paul Oliver: I am Paul Oliver, president of the Ontario Restaurant Association. With me is Rachelle Solomon, our manager of government affairs, and Sharon MacLauchlan from McDonald's Restaurants, a member of the association.

On behalf of the Ontario Restaurant Association, I'd like to say that we're pleased to appear here before you today and have an opportunity to comment on the proposed changes contained in the Fair Tax Commission report, as well as to put forward a number of new ideas developed by the Ontario Restaurant Association.

The ORA is a non-profit industry association which represents the restaurant and foodservice industry in Ontario. It was founded in 1931 and currently represents approximately 4,500 members, representing thousands of foodservice establishments.

In the packages distributed earlier are the formal submission developed by the ORA, a copy of a recent study commissioned by the ORA by Ernst and Young which examines the tax levels on the restaurant and foodservice industry, and a copy of an economic study by the Conference Board of Canada which examines the tax rates in Canada versus our American counterparts.

I want to make one brief comment on the conference board study. I think you'll find it very helpful in your deliberations, looking at the way taxes are applied. It only looks at taxes applied to the operator; it doesn't look at consumption or consumer taxes, but what it found was that the tax level in the US versus Canada was relatively similar for the tourism industry when they're profitable, but because it's based more on ability to pay in the United States, the system is more progressive, and the tax burden drops substantially when profitability declines or is eliminated.

The past several years have been particularly devastating for the foodservice industry in Ontario. Over the last four years, real industry-wide sales have declined in excess of 20%; 1993 fortunately has seen a stabilization of sales within our industry. However, the industry remains extremely vulnerable to any weakening in consumer confidence.

Even with the stabilization in sales, profit margins, which are typically very thin, have virtually evaporated. Bankruptcies in our industry are continuing at record-high levels. Formal bankruptcies in 1992 exceeded 500, and in 1993 they exceeded 450.

As you are well aware, the restaurant industry has been severely hurt by the current recession, which has been exacerbated by the introduction of the GST. We now must be, as a society, particularly vigilant to ensure that new taxes or regulatory initiatives do not further strangle this very price-sensitive industry and upset the fragile economic recovery which is under way.

Since our formal submission covers in detail our response to many of the proposed changes contained in the Fair Tax Commission report, we'll limit our comments to just a few of the proposals.

In the report, the Fair Tax Commission recognizes the need to apply taxes fairly to the business sector. Unfortunately, in its recommendations it is more concerned with the ability to avoid payment of taxes on profit than the ability to pay based on profitability. In their haste to reflect the realities of the mobility of capital, the commission appears to have abandoned tax fairness, as has been advocated, towards tax policies. The ORA is disappointed that the commission only pays marginal attention to the ability of consumers to take their money elsewhere and to spend it elsewhere.

The foodservice industry is greatly aware of the impact of taxation on consumption, having experienced the loss of sales due to three areas of consumer choice, caused in part by high taxes in Ontario: The foodservice industry has lost market share to the grocery and convenience stores due to the inequitable tax treatment under the PST and GST; restaurateurs in border regions have experienced further loss in sales to the phenomenon of cross-border dining; and the entire tourism and hospitality industry in Ontario has witnessed a loss of sales to other, less costly jurisdictions. Any consideration of tax fairness that considers mobility must also be aware that the tax options have an impact on consumer choice between competing jurisdictions and between competing industries.

Ms Rachelle Solomon: One area of taxation which is

of particular concern to the hospitality industry is that of beverage alcohol taxation. Although the commission alludes to the high taxes imposed by the federal and Ontario governments on beverage alcohol, the ORA was disappointed to note the lack of any concrete discussion or recommendation on this subject.

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Beverage alcohol is notably more expensive in Ontario than in other jurisdictions in the United States which compete directly with Ontario for tourist dollars. The price differential on beverage alcohol has eroded Ontario's travel deficit. Not only is the Ontario tourism and hospitality industry finding it difficult to attract foreign visitors to Ontario, but many residents of Ontario are travelling to other jurisdictions because the cost of vacationing in Ontario is increasing at an alarming rate compared to other jurisdictions.

A major cost component in travel decisions is the cost of food and beverage. Next to transportation, this is the largest expenditure category. Ontario now has a record travel deficit which is continuing to grow. In order to compete with neighbouring US destinations, the Ontario hospitality industry needs wholesale pricing of beverage alcohol, the single product that is most notably uncompetitive between the two jurisdictions.

The ORA strongly encourages the government of Ontario to produce wholesale pricing for beverage alcohol sold to the hospitality industry through the reduction of provincial markups and the elimination of the gallonage tax. Provincial and federal government revenues as a percentage of the price of beverage alcohol have risen sharply from about 40% in 1955 to about 63% in 1993.

Another subject of great interest to the restaurant industry is that of the business meal deduction. The commission recommends that Ontario should seek the agreement of the federal government to establish and strictly enforce rules applicable to corporate expenditures which provide employees with personal benefits such as meal expenditures. Where possible, the personal element of such expenditures should be attributed as income to those who derive the private benefit. Through this recommendation and the discussion in the report preceding it, the commission clearly recognizes the necessity of the deduction for business meals.

Research by Crest Canada demonstrates that business meals are claimed by Canadian workers from all sectors of the economy, including truck drivers, real estate agents, travelling sales representatives and employees working overtime. The ORA strongly supports retaining the business meal deduction. Its retention is also in the best interests of the government of Ontario.

Research indicates that business meals accounted for 5% of commercial restaurant sales, or approximately \$385 million in Ontario. A recent study for the ORA by Ernst and Young entitled *Contribution of the Restaurant and Foodservices Industry to Government Revenues* in Ontario estimates that these business meals generate \$30 million in taxes for the provincial government and 9,700 direct jobs. Any further reduction in the deductibility of business meals would jeopardize sales taxes and jobs. As well, the elimination of the business meal deduction

would result in a net reduction of \$15 million in net provincial taxes.

Ms Sherry MacLauchlan: In the area of payroll taxes, the ORA supports the commission's conclusion that the government should not increase the tax reliance on payroll taxes. The association is concerned by the recommendation that Ontario should eliminate the graduated rate structure for its existing payroll tax and replace it with a uniform rate of tax based on all remuneration.

Given the mandate of the Fair Tax Commission and the commission's clear stand opposing regressive taxation and in favour of ability to pay, the ORA finds it odd that these two fundamental principles would be discarded for the taxation of businesses. The graduated rate for the employer health tax is the only concession in the current structure for payroll taxes in the province of Ontario to the regressive nature of the tax, and to remove this allowance is a rejection of the concept of ability to pay when applied to businesses.

Trends show that as these small businesses grow, they are better able to handle incremental costs such as increased payroll taxes because of the economies of scale inherent in growth. Without an initial break, such as the lower rate for the EHT on businesses with payroll less than \$200,000, a considerable barrier is placed upon starting a new business and providing new jobs. The graduated nature of the EHT is an important concession for the industry, and approximately one half of the foodservice companies fall under the \$200,000 payroll threshold.

The foodservice industry is dominated by small businesses, which account for 78% of foodservice companies. The industry is labour-intensive, with a mixture of entry-level positions and higher-paid skilled and semi-skilled occupations. An elimination of the lower rate of application of the EHT for the foodservice industry would jeopardize the very existence of thousands of small, independent restaurants providing jobs across the province and would present a significant barrier to entry into the foodservice industry.

Therefore, the ORA strongly recommends that the Ontario government maintain the graduated rate structure for its existing payroll tax.

In the area of the retail sales tax, the ORA has a number of concerns. It must be noted that the newly elected federal government has stated its intention to review the national system of taxation, with particular emphasis placed upon removing the current goods and services tax and replacing the revenues. ORA recognizes that this development only became clear upon the election of the new government and after the Fair Tax Commission had completed much of its work. The ORA understands that the Fair Tax Commission was not in a position to re-evaluate and rewrite major recommendations based upon possible outcomes of the federal vote.

For the purposes of this presentation, the ORA will not attempt to second-guess the upcoming work of the federal finance committee and will respond to the existence of the federal sales tax.

For the most part, the recommendations to harmonize

the Ontario retail sales tax with the federal goods and services tax makes sense from an administrative standpoint as well as an economic standpoint as long as the precedent set by the Quebec sales tax disharmonization with the GST is avoided at all costs.

The ORA fully supports removal of business inputs from the tax base of the RST and considers this recommendations worthwhile even if Ontario's tax base is not harmonized with the federal tax base. However, the ORA has the following concerns with the commission's recommendations pertaining to the sales tax. First, the recommendation to broaden the tax base is not accompanied by a recommendation to lower the rate of tax. Second, the commission ignores the 10% retail sales tax on beverage alcohol consumed in licensed establishments. Finally, the commission recommends that the extension of the tax base include the elimination of the threshold for meals under \$4 but not include the taxation of what the federal government has termed as basic groceries.

The ORA recognizes that taxation of food is a highly contentious issue. However, the issue is critical to the goal of tax fairness, as the current tax base for the GST has created a legislated inequity between two competing industries: the foodservice industry and grocery stores.

The growth of the foodservice industry was achieved in part at the expense of grocery stores. By offering convenience and value, the foodservice industry developed growing markets among working women, dual-income families, tourists and business travellers. The industry's market share of the food dollar grew from 18% in 1963 to a peak of 42% in 1989. Grocery stores and grocery product manufacturers have recognized this trend and adjusted their product lines to offer consumers greater convenience and more highly prepared, ready-to-heat meals.

The introduction of the GST in 1991 distorted a marketplace in which fierce competition was already raging between these two industries. It has been concluded that the GST had reduced foodservice sales in 1991 by 7%. Since the introduction of the GST, the foodservice industry's share of the food dollar has dropped from a peak of 42% in 1989 to 37% in 1992, representing a 12% drop in market share. Sales in grocery stores continue to grow.

ORA appreciates the recognition by the Fair Tax Commission of the current inequity between ready-to-heat meals sold in grocery stores versus ready-to-eat meals. If the upcoming federal review of the GST results in minor tinkering with the tax base, there's no question that the items mentioned in the commission's report must be included. However, in its quest for tax fairness, the Ontario government should seek equal treatment of all food, regardless of place of purchase.

I'd like to speak a little bit now about the \$4 exemption on meals. The Ontario retail sales tax recognizes this competition to a certain extent through the \$4 exemption for low-cost meals. However, it should be noted that groceries are exempt from the retail sales tax, even luxury items such as caviar.

Increasing the cost of prepared food, which would result from the elimination of the \$4 provincial sales tax

exemption, would mean higher costs for an important element of food consumed by Ontario residents. The burden of this increase is highly regressive in nature because it ignores an individual's ability to pay and punishes those individuals who are required to purchase basic prepared foods due to employment, family or school commitments.

Although restaurant meals might be thought of as a luxury item, this is no longer the case due to significant social changes which have occurred. Lower-income households spend a larger percentage of their income on food away from home and would be disproportionately impacted by the elimination of the \$4 exemption.

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Food consumption away from the home is no longer a luxury and should not be treated as such. The elimination of the \$4 exemption would severely undermine the health of the hospitality industry and cost foodservice jobs and would hurt low-income people such as students, senior citizens, working mothers and any individuals on a fixed income. This is a policy which we strongly believe should not be pursued.

To address this serious issue of food taxation, the ORA recommends that the Minister of Finance and the Minister of Agriculture and Food initiate a multistakeholder review of food taxation which explores both direct and indirect taxation applied to food.

Mr Oliver: In the area of environmental taxes, the Fair Tax Commission recommends the application of a number of user fees relative to water, sewer and garbage collection. The ORA supports this recommendation and will take the opportunity to point out that most commercial establishments in the province are currently metered and charged for water and sewage services separately.

User fees in this area are the most fair tax option. This recommendation, however, should ensure that the introduction of metered services is not used to unfairly shift the cost burden from the residential sector to the commercial sector and that environmental taxes should be designed only to change behaviour and not increase overall government revenue.

The ORA would also recommend that the government look to alternative revenue sources rather than increasing taxes in the near future. With the introduction of casinos in Ontario, the provincial government has clearly recognized the opportunity to generate revenues without further expanding traditional sources of taxation. The ORA applauds the government of Ontario for taking this initiative.

The ORA, however, suggests that an even larger source of revenue could result from the introduction of video lottery terminals, VLTs, which would represent a double benefit to Ontario. Every province except British Columbia and Ontario has introduced or is in the process of introducing VLTs. VLTs represent a significant income stream for the government of non-tax revenue. The ORA conservatively estimates that it could be as much as \$500 million per year.

As well, the introduction of VLTs in age-controlled LLBO-licensed establishments represents a potential

source of revenue to the operation which will sustain many establishments which are struggling to survive. The introduction of VLTs into licensed establishments will also provide the hospitality industry with a competitive advantage in border regions and we believe will encourage more American cross-border travel to Ontario.

The ORA recognizes the social and political aspects surrounding the introduction of VLTs. However, we believe that the government should proceed with the introduction of VLTs in age-controlled, licensed establishments.

In conclusion, the ORA strongly supports reforming the tax system so that it is based more on the ability to pay, over regressive taxes such as payroll taxes, consumption taxes or property taxes.

The extension of payroll taxes in the current economy offers little encouragement to the thousands of residents of Ontario who are unemployed or want to work. To increase the tax burden on employers wishing to provide jobs and to new businesses by the removal of the lower rate and graduated structure for the EHT would stall job creation in the exact types of businesses which are providing new employment: small businesses which are labour-intensive in the service sector. Reliance on consumption taxes is not only regressive but would ignore the mobility of consumer purchasing, particularly in the area of tourism, where the world is literally a global market.

The ORA believes that the provincial government should embark upon an aggressive strategy to foster economic growth in the province and not increase taxes in the next budget. Its recent announcement to invest in the Metropolitan Toronto Convention Centre is a decision applauded by the ORA. More, however, must be done to examine the regulatory policies which are hampering growth and to stress options which will allow sectors such as the food industry to grow.

We appreciate the opportunity of appearing here today.

Mr Carr: Thank you for your presentation. I was interested in your ideas regarding some of the regulatory policies, your recommendation 2.

I've been spending some time on our task force dealing with small and medium businesses and how we're going to allow them the opportunity to grow and prosper. In each industry, we're hearing a tremendous number of problems when we speak, whether it's day care people or whatever. You could go on for ever about the regulations that have been put in place by governments at all levels.

With regard to your industry, what are the few regulations that you would like to see removed that you feel would be helpful to your industry? Is there anything specific you'd like to see the government do?

Mr Oliver: One of the ones that jumps to mind is the hours of operation for licensed establishments. Currently, Ontario is the only province in Canada that has closing hours of 1 a.m. Even provinces like Prince Edward Island have longer hours now.

It's a disincentive in the border regions where we have Ontario residents crossing to the US or into Quebec, and with them go jobs and tax dollars. But it's also a disin-

centive for attracting convention business to Ontario. It's certainly a factor that goes into that, and costing goes into selecting a convention site. Every major tourism destination in North America has longer hours and every province in Canada has longer hours, and we think that just by contemporizing the legislation, that would make a first step towards creating employment and generating more taxes. It would also help address the black market that has grown in illegal, after-hours booze cans, which have grown at a staggering rate.

Mr Carr: Obviously, you wouldn't be able to give an indication of the amount of jobs that would be created if that happened, even ballpark?

Mr Oliver: We're actually surveying our members right now as to who would take advantage if there was an extra hour or two. Then from that we can use their employment numbers and develop that, but we probably won't have that available for another three or four weeks.

Mr Carr: I suspect you could probably project increased revenue too.

Mr Oliver: It would be increased revenue by shifting beverage alcohol and food consumption away from illegal after-hours clubs that aren't paying taxes, aren't paying payroll taxes, aren't paying consumption taxes, and then also shift consumption away from the home, where a lot of paid house parties are taking place now.

Mr Jackson: Have you made any presentations with respect to the Windsor Casino, to adjust the hours of operation for that, or are they going to allow the casino to stay open till 2 but the bar has to close at 1?

Mr Oliver: We've suggested to the government that contemporizing or updating the legislation is something that's critical, and the Windsor Casino will demonstrate how important it is that we're competitive with other jurisdictions. We can't look at the hospitality industry just within Ontario; we have to look at all competing jurisdictions, Detroit, Atlantic City or wherever.

Mr Sutherland: On that point about the extension of hours, I haven't seen any information about drinking and driving rates in the other provinces that you say have later hours. Does the restaurant association have any information or comparisons? Maybe we can ask research to see if they could find that. I'd be interested in knowing, because that's one of the arguments against doing it, what impact it would have on that.

Mr Oliver: Yes, we've looked at it in quite a few American jurisdictions and then also in some Canadian jurisdictions before and after they went to extended hours and we have not been able to identify any marked, dramatic increase. What we've proposed also is that the extended hours be tied with the introduction of a server training program in licensed establishments in Ontario.

Mr Sutherland: You have a very extensive brief, as usual, and quite a few recommendations here. Several of them include reduced taxation, which I don't think surprises any of us. But given the fiscal situation and the deficit situation, and you heard the Treasurer say revenues are going to be down significantly, I think it's fair to say that not all of these recommendations, particularly the ones on reduced taxation, would be put in.

If you had to choose one of them that you really think the government should implement, that you think would not only help your business but particularly help employment and hiring more people, which one would you recommend the government implement?

Mr Oliver: Actually, to the best of my knowledge I think very few of the recommendations pertain to reducing taxes. The only major one that suggests reduced taxation is the introduction of wholesale pricing to licensed establishments.

Mr Sutherland: But of the 23, if you had to choose one, which one do you think would have the greatest impact in terms of increasing employment in Ontario?

Mr Oliver: They would all have some degree of impact. Probably the most damaging thing the government could do is increase taxes overall, increasing sales tax or eliminating the \$4 exemption. I think staying with the existing tax level would be the most important thing.

The government should also, at the same time, look at the introduction of things like the VLTs, which would generate additional revenue. We know now that there are approximately 10,000 illegal video lottery terminals in Ontario. Let's bring that back into the mainstream. I think the introduction of that would be a major thing.

Introduction of wholesale pricing would also be a major benefit. The economic work that we've done would suggest that by introducing wholesale pricing, you're actually going to shift consumption from home consumption to the value added licensed establishments, and in turn the government would net more tax revenue.

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Mr Wayne Lessard (Windsor-Walkerville): I always appreciate the presentations from the Ontario Restaurant Association, and there were a number of things that caught my attention. One was your comments about environmental taxation. I agree that they should be introduced only to change behaviour, not to simply raise government revenue. I also appreciated your comments about alternative revenue sources and the impact the casino's going to have not only on the Ontario economy but in Windsor as well.

I'm a bit wary of the introduction of VLTs across the province in licensed establishments, however, but I do agree that a lot of regulations with respect to alcohol in the province are holdovers from the Victorian era and need to be reviewed.

I was interested in your work on the econometric research about the discount pricing for alcohol as well, because, as you know, Hiram Walker is located in my riding. Through their association, the Association of Canadian Distillers, they have suggested to us that we consider a reduction in the price of alcohol of \$4 a bottle. You have a bit of a different approach you've suggested, a discount to licensed establishments rather than an across-the-board reduction. I'm interested in seeing the research you've done that says we can make some adjustments and still have the same revenue, but I wonder whether you've discussed with the distillers' association the different approaches you have and whether there's any disagreement or concern on its part.

Mr Oliver: We certainly have had extensive discussions with the distillers' association, and certainly there's a consensus between our association and theirs that the tax level on distilled spirits is too high and it's generating a massive black market. We've been working with them on their tax proposal that they've been developing, and they've been using some of the research out of our econometric work that Dr Kibursi's done. I'd be more than happy to provide you with a copy of that.

I think it's just different approaches as to how to arrive at it. Ours is very focused specifically on our industry and it looks at shifting existing consumption from home establishments and illegal establishments to licensed, taxed establishments. Theirs is broader, looking at the broader issues.

I'd be more than happy to share it with you. We are still working with the distillers on their proposal and they've used a lot of the research that we've developed.

Mr Lessard: They'll be here Thursday and we can ask them more about it.

Mr Phillips: How big a deal is this simplification recommendation here? You're not the first one who's brought that recommendation to us. How much focus do you think we as a committee should be putting on that?

Mr Oliver: For small business it's a major issue. We've been doing some surveying of our members. Small operators are spending between 40% and sometimes more than 50% of their time doing government compliance, filling out forms, and they often can't figure out why they're submitting one to federal government revenue and another one to the provincial. It's just major confusion for them, which wastes time and places a further financial cost. We think the productivity could be enhanced substantially both for business and government by simplifying the system.

The work that the federal government's doing looking at single-number entry for all government correspondence to be using, in that case, the GST number, we think would be a major benefit, because then your EHT number, PST number and liquor licence would all be the same. That by itself would make tracking a business—but we also think it would help the government by simplifying it. Having one number for taxes, for example, would eliminate someone having a different payroll number for workers' compensation than EHT or payroll tax deductions. For the government it would make compliance certainly far easier and in the long term that would generate substantially more revenue for the government.

Mr Phillips: The casino recommendation: We've obviously been following that with a lot of interest and you presented to another committee that we were on. Do you have any advice for us on how things are proceeding around North America on casinos?

The concern, I think, the committee that looked at it had was that this is like a gold rush, that every community in North America is on to this one because it looks like it's just going to be a golden goose that keeps laying terrific eggs. The challenge, I think, is that—I believe the Windsor casino's going to cost \$250 million to build. I think that's kind of the pricetag for other ones and there's

a worry by some that we may end up with six or seven of these things around the province pretty quickly but with three, four or five of them being public white elephants because in the end the public will be on the hook for them.

Have you been monitoring the progress around North America and are we unduly concerned about the possibility that when they all get built in Detroit, in Buffalo and in upstate New York, as well as Ontario, we may have a glut of them?

Mr Oliver: Certainly that should be a concern of the committee and I think one of the ways of addressing that is by making sure that the casino is very closely linked to the tourism industry. We've seen this revolution in the Las Vegas market, for example, where they've shifted their entire focus from the single junket—the person coming down, gambling for two days and back on the plane—to a family atmosphere which is tied with a lot of tourism attractions, revamping the entire accommodation or hotel structure that they have. They're recognizing that they've got to distinguish themselves.

We in Ontario we are going to have to do that too. We have to demonstrate why we're different than a casino if one is developed, say, in Detroit and I think that even for the other jurisdictions that have gotten into it.

The first ones into the race built very basic, almost warehouse-style casinos. You went in, you gambled, nothing else, and you went out the other side without any money. But now they're getting into elaborate structures, complementing it with the local tourism and hospitality industry.

If we do that, the real benefit to the Ontario economy will not be the casino but the additional tourism and convention business it potentially could generate. There has to be a very close link between the management of the casinos and the local hospitality and tourism industry.

The Chair: Thank you for your presentation today.
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ONTARIO TEACHERS' FEDERATION

Mr Jim Head: I am Jim Head, president of the Ontario Teachers' Federation, and I have with me Margaret Wilson, secretary-treasurer. We represent over 130,000 teachers in Ontario.

Our intent is to not read the whole presentation but only particular sections which we wish to have in the record, but more of a reporting as we go through. With your indulgence, we'll go from the beginning to the end with comments as we go. It will be my intention to deal with the first half and then Margaret with the second half.

In our 1993 submission to this committee we had a number of points. I'd like to emphasize particularly the second point, "Priorities and commitments are identified by the human and financial resources allocated," and the fourth point, "Education is the key to our collective future as a province; real educational reform requires working and workable partnerships between stakeholders and government, and sufficient resources to succeed."

A strong educational system is central to the development of a healthy economy. By education, of course, we mean lifelong learning from pre-kindergarten right

through to training. The removal of effective resources for learning today will be felt in schools and workplaces for a generation.

Under our section on effective management of the present fiscal situation, we argued that in 1993 the 1992 transfer payments had affected the delivery of education programs in the province. At that time, we argued that there was strong evidence that the reduction in transfers was having the dampening effect on wage and benefit expectations desired by the government. I guess the latest transfer announcement doesn't help us an awful lot either.

Indeed, as partners we did try to do our part. You will notice in our second paragraph on page 2 in regard to the Ontario teachers' pension plan that we agreed with the government to use \$325 million of anticipated gains in the fund to reduce the social contract targets for members of the plan during the first two years of the social contract. Those \$325 million would otherwise, under the terms of the Teachers' Pension Act, have been available for future negotiations of improved benefits or contribution rate reductions.

We do feel that the teachers, not only prior to the social contract but during, certainly made a strong contribution to Ontario. However, the continuing preoccupation at all levels of government with the deficit and the slow recovery is overwhelming the ability of people and organizations of reasonable goodwill to find reasonable solutions.

I noticed in an economic report that I get from the States called Taipan that in its 1994 forecast for Ontario and Canada that the ability of people to have money to spend is certainly going to curtail the development of Canada, from its perspective.

Under junior kindergarten, I'd like to read this section for the record: In January 1992 the Minister of Education, Tony Silipo, made clear the intention of the government to proceed with the full implementation of junior kindergarten programs across the province by September 1994. The issue of junior kindergarten had been high on the priority list of the previous government and remains so with the present government.

The teaching profession and the government, as well as parents and researchers, believe that junior kindergarten programs provide a critical link between home, child care and school. The importance of effective kindergarten programs is well documented in a 1993 research publication of the ministry, *What Makes Exemplary Kindergarten Programs Effective?* With the pre-social contract cuts, some boards saw their existing JK programs as expendable, while still others who had yet to implement saw them as postponable. The ministry has put out a directive to try to make this totally functional by 1997.

Discussions have been ongoing between the Ministry of Education and Training, the school board associations and other stakeholders, including the federation, regarding the capacity of the school system to meet the time lines laid out. Although there appears, again, to be reasonably clear direction from the Ministry of Education and Training to school boards, there is continuing uncertainty about the compliance of some of the boards.

Collective bargaining: The lack of fit between the social contract and the School Boards and Teachers Collective Negotiations Act has led to some particularly prolonged and intractable difficulties on the collective bargaining front since the spring of 1993. I take you over the page to the indented paragraph pointing out that this is not true for other sectors of society under the social contract. It seems particularly true to education.

As we say, to the best of the federation's knowledge, the extreme behaviour on the part of some employers is unique to the elementary and secondary education system, and has not occurred in other parts of the broader public sector, despite the fact that similar provisions for unilateral change exist in the Ontario Labour Relations Act. Under the OLRA, it's only 10 days. We have 60, yet that sector is not experiencing the kind of trauma we are.

Institutions, like human beings, respond defensively and protectively when their wellbeing is threatened. If complete paralysis in the education system is to be prevented, there must be some assurance to school boards and their employees that there are no more rude surprises awaiting and that there will be opportunities to adjust to the present change and to restore the sense of equilibrium and reasonable security necessary for teachers and schools to do their daily jobs well.

The impact of the social contract has been fraught with difficulties and certainly has caused us some problems. Despite agreements in late October to use an expedited arbitration process and a declared interest by the teachers' organizations in mediation arbitration, there are now 17 days scheduled, extending into June 1994. I think it was the government intention originally that this would all be secure in September 1993.

In early June the government created the job security fund as an incentive for broader public sector unions to continue their participation in the social contract process. A debate has now erupted at the sectoral task force regarding the eligibility of employees to access the job security fund.

The present thinking of the government appears to be to confine access to the benefits of the job security fund only to those individuals whose layoffs can be directly attributed to the social contract. I might point out that is very difficult to prove. Current information appears to indicate that the number of layoffs directly attributable to the social contract will be very low.

The federation believes the social contract was but one part of a larger restraint package that includes the provincial expenditure control plan announced in April 1993 and further cuts being made within the authority of the transfer agencies at the local level in the broader public sector. The federation has a genuine concern regarding the justice of singling out one group of employees for benefits when the various legs of the restraint stool are firmly interconnected. That concern is further exacerbated by the fact that the funds to support the job security fund come from the two largest employee pension plans in the broader public sector.

The knowledge that spring and the 1994 Ontario budget are rapidly approaching leads the more cynical among us to wonder if the very narrow approach to

access to the job security fund will provide new savings to be applied to the deficit.

The impact of the increment freeze on young teachers: I think it's fair to say that the young teachers who came into the profession were prepared to do their part in a wage freeze and even a wage rollback. They also bought homes and made other significant purchases that saw them going ahead with some sort of increment that would not be curtailed. Some people have been doubly hit up to the tune of \$28,000, as high as \$70,000, depending on their particular situation and interpretation. The point we want to make here is that if we're looking for money for the economy, this group particularly won't have any.

I'd like to read the last two pages into the record in terms of our recommendations on page 10.

The school system must be given some assurance of financial stability over the remainder of the term of the social contract so that it may begin to restore working and workable relationships between employers and employees and get on with the business of learning and teaching.

The job security fund must be used positively to rebuild and restore confidence among broader public sector employees.

Consideration must be given to those younger employees whose working lives have been disproportionately disrupted and to those whose prospects for employment in professions like teaching have been delayed.

Margaret will carry on with the remainder.

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Ms Margaret Wilson: I'd like to address first the question of the financing of education. The reductions in transfer payments over the past two years combined with the social contract put heavy stresses on the present system of financing education. Assessment-poor boards which rely heavily for their operations on transfer payments have been hardest hit by the provincial cuts, but Metro, which relies totally on the property tax to fund its schools, has been hardest hit by the recession and property tax defaults. Indeed, at a conference that I attended on Saturday, one of the panellists I heard talked about Metro having half of the unemployed in Canada.

The relationship between the province with its overarching responsibility for education and independent city-states such as Metro Toronto and Ottawa is becoming increasingly fragile as new stresses are added. Indeed, when we talked to school trustees and to staff at the Ministry of Education, the estimate of the number of school boards approaching fiscal collapse, in serious financial trouble, is somewhere between 17 and 30. It never goes down below 17 and it hasn't gone above 30. We're talking about boards which may or may not be able to meet their payrolls if the issue of education finance is not addressed.

The Fair Tax Commission has recommended moving education away from its dependence on the property tax. At present, over 60% of the cost of education in the province comes from this tax source. The commission is looking at a system more reflective of ability to pay. In addition, it identified major weaknesses and inequities in

the present system of property assessment and equalization which make quick fixes suspect and unlikely to succeed. The current gridlock in Metro over market value assessment is one indication of the major problems with the property tax system and the overwhelming difficulties in making changes smoothly.

None the less, our tax system and our system of financing education must change. The education system needs a stable source of revenue and reasonable equity among jurisdictions. One interim possibility for increasing fairness while offering time to reform the assessment system is to use a more sophisticated mix of indicators than equalized assessment to determine the relative wealth or poverty of school boards and subsequent rates of grant.

The catchphrase of the new social and fiscal engineers of the province for the past two years has been "restructuring to new ways of doing business." The federation has often been critical of the bureaucracy in the Ministry of Education. In fact we're often critical of the bureaucracy in school boards, as a couple of you who are ex-trustees know. But we've watched with considerable dismay and concern the dismantling and reassembly of the Ministry of Education and Training. Indeed, we've got some concerns about the amount of talk that's in the newspapers about the dismantling and reassembly of school boards without significant public consultation.

In terms of the ministry itself, we would like to make the point that the role of a Ministry of Education and Training is a role which varies, depending on the section of its activities that we're looking at. In terms of the education system, the Ministry of Education and Training should have the capacity to establish a framework around which specific schools and boards can organize their programs within their communities while adhering to a common standard and to the needs of a mobile society. Look at some of our boards and they'll tell you that 69% of the students were not in the same school the year before. We're talking about a society whose mobility is extraordinary.

The fulfilment of the role of developing a framework in which the schools can operate rationally across a province the size of Ontario requires some insider knowledge of the education system and sufficient understanding of the teaching-learning process to produce effective policy.

The federation understands that structures and bureaucracies must change with changing times and realities. Indeed, we support the concept of moving all the education enterprises, colleges, universities, schools and training, under the aegis of a single ministry, but we do believe that the policy role with respect to the various components is quite different.

Elementary and secondary education, for instance, is not expected by the public to be as autonomous at the individual institutional level as the university or college system. This means that the role of the Ministry of Education in relation to the schools is different from the role it would play with the universities.

In our 1993 submission to this committee, we documented the systematic dismantling of the Ministry of

Education's professional staff in curriculum and assessment over the previous six years. We gave you numbers. This steady reduction turned into a haemorrhage with the Ontario public service 80 factor. It is true to say that one does not know whom to phone at the ministry about a particular problem at this time. One does not know if the person is still there. One is apt to be told, "I'm here for two more weeks," and quite often it's people in charge of very significant portfolios.

Now the Ministry of Education and Training has advertised for 65 secondments of professional educators to refill the lost professional expertise. Unfortunately, there's an inherent instability in secondments. They're a stopgap measure. The question of rebuilding the professional expertise and the lost institutional memory of the ministry remains unanswered.

We'd like to finish by talking to you about some good news in the education sector. It was a case of money helping to get something going and going to good effect, and we thought the committee would be interested in it.

In January 1993 the federation, with funding support from the Ministry of Education and Training, launched Creating a Culture of Change. We've brought for you the November newsletter of the project. This is a unique reform initiative in that it places resources directly in the hands of the professionals at the classroom level.

The project provides teacher-facilitators to work face to face with groups of teachers on project initiatives of the local teachers' own choosing. The facilitators, for instance, would go into a school that has stated an intention to change the way it's doing business and would help them figure out how they want to do what they want to do. The facilitator doesn't tell them what it is they're supposed to do. It's a means of assisting people to change.

In addition, we have an electronic network linking teachers across the province through a peer-moderated conferencing system, so it's not computer hacker talking to computer hacker. Conferences are advertised. Groups of teachers can search for other teachers interested in a particular topic. A moderator who is trained to moderate the conferences will take the groups of teachers on.

We were told in the fall of 1992, when we were designing the project, that we would be lucky to have 1,000 teachers enrolled in this kind of network within one year of its startup. There are over 4,000. We now have a group of professors of education from several universities interested in studying the project, because nobody else has been able to get so many people involved in this sort of thing so rapidly.

It's a cost-effective method of doing professional in-service with teachers. It has also proven a cost-effective vehicle for the dissemination of Ministry of Education and Training documents. The Common Curriculum is now on the network and we have designed a means for teachers to feed back to the ministry analytical comments about that particular document.

We believe that the phenomenal growth in activity in this project flows from one simple fact: Teachers don't have to get permission from anybody in order to plug

into the network. They don't have to ask a department head or a principal or a superintendent. A superintendent doesn't have to ask anybody else and we have superintendents on the network. Indeed, we have some staff members at the Ministry of Education on the network.

The project's now in its second year of operation and funding is being sought from the Ministry of Education and Training for a third year. The federation itself is making a substantial contribution in terms of staff time.

Our experience with the network led us to form a partnership in the spring of 1993 with three provincial organizations of supervisory officers, the school superintendents, to develop a comprehensive proposal for telecommunications infrastructure for elementary and secondary education in Ontario.

This proposal, which is currently under consideration at the Ministry of Education and Training, would establish a provincial cooperative of stakeholders and the ministry, with responsibility for installation, management and support of a provincial networking system which would allow boards, teachers, administrators, the ministry and ultimately students to use the available technology for learning and work. By creating a critical mass of activity and users and establishing links to other partners in the education sector, the telecommunications age can become both universally accessible to Ontario's schools and affordable.

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In terms of the affordability issue, if you remember that Ontario is as big as western Europe, the reason that the network is stuck at 4,000 right now is that long-distance costs are substantial. If we can develop the telecommunications infrastructure you're talking about, reducing the per-person costs for a year of usage of the network from around \$130 per person to under \$5 per person, at that point it really does become possible to network the kids. So we are waiting for a response from the ministry and hope that it will be positive.

I'd like to turn to the two recommendations on the sections that I have read which are on page 11. Difficult issues like property tax and education finance reform must be faced with imagination and tenacity. People have been talking about education finance reform since I became a teacher. The system is now so badly broken that it must be fixed. There is no choice.

Tentative steps towards resource sharing and cooperative ventures among and between institutions and stakeholders must be encouraged and appropriate incentives provided. Our pride in leadership and innovation must become as important as, perhaps more so than our present preoccupation with cost-cutting and deficits.

Education's impact on the economy has a long and continuing horizon. The child who enters junior kindergarten in September 1994 will enter the workforce in 16 to 18 years. The fiscal decisions made now and their effect on our schools will reverberate for at least a generation. It's part of your role, committee, to ensure that as far as is possible the effects are positive.

We thank you for the opportunity to talk to you.

Mr Mark Morrow (Wentworth East): You've hit

something that's come up in my office quite a bit, the job security fund. I understand that there's a problem when, say, a teacher gets laid off, in proving it's due to the social contract. But as a federation you have resource staff too, although, because your higher-end staffing is being cut back, their staffing would also be cut back. Can you give us some idea of a way to get around that?

Ms Margaret Wilson: I think our real point about the job security fund—and in addressing it we're not addressing it necessarily as a teacher issue, because we think that our retirements will be such that this is not a substantial teacher issue. It will be a smaller issue for us than for other employees. Our real point is that the social contract is so intimately tied in with other fiscal decisions that have forced expenditure restraint that it is less than honest to tie the fund exclusively to those few job losses which we think will be identifiable directly with the social contract, that the expenditure control plan job losses should be covered by the fund as well.

Mr Phillips: There's lots I'd like to ask, but I guess we only get one question. The unfunded liability in the teachers' pension, which is not the responsibility of the teachers but of the government, I just want to make sure you're in agreement with the plan the government's enacted. I think they've passed a bill to withdraw about \$140 million that they put in last year, take it back out, and then they take another \$150 million out this year and then take a three-and-a-half-year holiday from making any payments against that.

I think they plan to spend, in 1994-95, about \$400 million against the unfunded liability. I think the plan is to spend none of that and just let the unfunded liability run up until I guess the middle of 1997.

Does the teachers' federation have any concerns about that? Do you share at least my concern that by making no payments for three and a half years against the \$7-billion unfunded liability, and then suddenly when it kicks in, as you know, I think the brand-new payment is about \$500 million a year, are we just kidding ourselves in saying that's an expense we shouldn't be servicing right now?

Mr Head: I'll just start off, Gerry, but Margaret has a bit more knowledge in some of the funding of it than I do since she sits on the board. I simply say our initial concern was in the first place to be involved in this in terms of our pension fund and the social contract, and we hope that will never happen again.

Having said that, though, it is all perfectly legal in terms of how it was worked out. It's not a simple matter of how it was worked out. It became a major concern. I can remember spending at least six months trying to find appropriate language to do what was going to be done.

So, yes, we had an initial concern. We hope that won't come back. But in terms of the actuaries and what they're telling us, I think we're fairly comfortable with that.

Ms Margaret Wilson: The pension board had advice from its actuary and had legal advice. When Jim is saying it's within the law, it's also legitimate in the eyes of the actuary in terms of actuarial projections.

Should it make us nervous? Yes, because you create a bulge when you come out of the period. But it is within

the Pension Benefits Act as well as the Teachers' Pension Act.

Mr Phillips: But only because the Legislature passed a bill that exempted this from the Ontario pension act. If we hadn't passed that bill, it would have been illegal to take the money out of the fund.

Mr Head: That's correct, but I think any government would have had a similar problem in the sense that the actuaries did project, in terms of their assumptions, a surplus and I think any government would have had to have dealt with how they would deal with that surplus. There might have been other ways of dealing with it that might have been a smoother transition.

Mr Phillips: It wasn't a surplus, it was that the unfunded liability, instead of being \$8.4 billion, was \$7.2 billion, wasn't it? Technically it wasn't a surplus.

The Chair: We're going to have to go on.

Ms Margaret Wilson: Why don't we come back at that again, one on one.

Mr Jackson: I appreciate your brief. Margaret, you were a member of the Fair Tax Commission. I found the words, "Difficult issues like property tax and education finance reform must be faced with imagination and tenacity," those two words I've always used to describe your work in education. I wonder if you could share with the committee something that could help me understand a little more what you meant by the imaginative—I'll get the right words. There was some imaginative pulling together of new factors, "a more sophisticated mix of indicators." Could you expand on that a little bit more for my understanding, especially with your background?

I know I won't have time for a second question, but if I could leave this one with Jim Head: Right sizing or downsizing, no matter what we're going to call it in this day and age, is affecting everybody. Although I appreciate you've given us warning signals about its impact, do you have some suggested areas where we might save that lessens its impact at the classroom, which is ultimately your concern? I'm going to leave you with that one, Jim, and maybe Margaret could expand on the use of a more sophisticated mix of indicators for me.

Ms Margaret Wilson: I'll try to be quick. I don't want to take the blame for being on the Fair Tax Commission. I chaired the property tax working group, and that was enough.

The thing I want to say to the committee is that the education community is divided on the issue of education finance reform. The divide is often taken to be a Catholic board-public board divide, but it isn't really a Catholic-public divide, it's a rich-assessment-based board-poor-assessment-based board divide.

The assessment system itself must be simplified, it must be more fair, it must be believable to the public or you're not going to be able to fix the ed fi system. That's one thing you've got to realize, and I think the property tax working group report really laid out in bold black and white the problems with the assessment system.

We continued to do some work cooperatively with the Fair Tax Commission after the property tax working group reported, and one of the things we were looking at

in terms of education funding—the ministry was going in a fairly complex direction, and a group which included representatives from the Catholic boards and the public boards helped gather data for staff of the commission. Then we went and we got very useful data from Statistics Canada.

We were looking at something as simple as using community wealth measured by Revenue Canada statistics and the literacy level of mothers. There's a very close correlation between the literacy level of the female parent and the wealth of a family. There's also a very close correlation between that and the success rate of kids in school. There is all sorts of research.

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We were looking at something that would cut through all the elaborate weighting factors. I know that the Ministry of Education received a lot of the information that we worked on. I don't know what's happening with it. I know that they were still very tied up in a paper-clip counting exercise; in other words, allocation of expenditures. One of the members of the committee comes out of Metro and will know exactly what I'm talking about when I say that provides infinite possibilities to lie about what's going on.

The Chair: Thank you for presenting this morning.

ONTARIO TAXPAYERS FEDERATION

Mr Paul Pagnuelo: Mr Chairman, committee members, I'm Paul Pagnuelo, executive director of the Ontario Taxpayers Federation. With me today are Doug Hindson and John Lavin, members of our advisory council.

The federation is a non-profit, non-partisan citizens' organization promoting the responsible and efficient use of taxpayers' dollars. It's one of five provincial member organizations of the Canadian Taxpayers Federation, which nationally has over 80,000 supporters. Our presentation today will deal with both spending and taxation.

"Churning." No, it's not Bob Rae's latest hit tune. Coined by New Zealand's former Finance minister Sir Roger Douglas, it's a term which refers to the billions of dollars governments remove each year from the pockets of taxpayers and consumers. Politicians take taxpayers' money from them and then give it back in the form of monopoly services which deprive taxpayers of choice.

In the process of "churning," governments deduct a large slice of money: first, to pay the civil servants, who unnecessarily act as middlemen; and second, to invest in wasteful projects which are politically appealing but always end in failure. The result is that taxpayers lose out twice, both in dollar terms and personal independence.

Ontario faces a fiscal emergency. The weight of unsustainable and inefficient public spending has started to collapse the taxpaying economy. The Finance Minister continues to argue that Ontario's deficit is due to a revenue problem, but he is gravely mistaken. Since 1989-90, total government spending has skyrocketed by some \$12 billion, from \$41.1 billion to \$53.1 billion. That's a 29.2% increase in the last four budgets. Revenues, on the other hand, have increased by \$2.8 billion, or 6.7% during that same period. If it had not been for tax and fee hikes of some \$4.2 billion, revenues would have actually

shrunk by \$1.4 billion.

The point is that had the government simply held the line on spending at the start of the recession, taxes could have been lowered, and we wouldn't now be faced with a growing mountain of debt which is costing us over \$7 billion a year just in interest payments, a debt which the Treasurer projected in his last year's budget would reach the dizzying height of some \$90 billion by 1995-96.

The tax well is dry; so dry it has been sealed over with concrete. We've reached the point in this province where tax increases have become counterproductive. The growing underground economy, weak consumer spending, business closures, record bankruptcies and the flight of capital and jobs to friendlier jurisdictions are all the consequence of the excessive tax burden in Ontario. As the Treasurer has found out the hard way, if you want to lower government revenues, hike spending and hike taxes. On the other hand, if you want to increase government revenues, lower spending and lower taxes.

The Ontario Taxpayers Federation believes that the traditional approaches to spending control, such as across-the-board cuts and massive service disruptions, unnecessarily consume the limited political capital the NDP government has to implement change. High-pain cuts and visible disruptions play into the hands of spending coalitions that are fighting vigorously to preserve the status quo.

Ontario is dangerously exposed to transfer payment cuts from a federal government that has little choice but to make spending cuts. In this demanding environment, the Ontario government must consider wholesale structural reform of government operations and programs to improve the value for money now spent on present services and to prevent further erosion of its tax base. It's time to focus on the forest and not the trees.

We urge the government to create a framework for measuring performance and fully loaded costs of public services. Stop wasting valuable time and political capital by micro-managing services to cut costs. Define outcomes and outputs in a performance measurement framework that allows comparison and choice among competing service delivery alternatives.

The province can save billions by ending the monopoly character of government services, by exposing high management overheads and by ending perverse incentives to waste taxpayer money. Done properly, the NDP government could position the reforms as better management that seeks more value for money. This is far more useful than the negative tone of the present debate that focuses on cutting services and cutting jobs.

Focus on outcomes. The present debate which favours the spending coalitions focuses almost exclusively on inputs or the spending of money. You can get more value for money in government by focusing on competition and performance measurement.

It is to the advantage of this government to reframe the whole debate about government services in terms of outcomes. It forces the proponents of more spending and higher taxes to justify monopoly and privilege for a relatively select group of workers.

Decentralize and deregulate services, like New Zealand did in the late 1980s. Depoliticize government operations. New Zealand's Labour government managed to overcome the spending orientation that drives traditional bureaucracy by freeing managers to manage, to hire and to fire, to make or buy services, to sell assets with little central interference, to reward performance and to maximize value for money. Specifically, they addressed perverse incentives caused by spend-it-or-lose-it budgeting and the closed-monopoly civil service hiring system.

These reforms shifted the debate about privatization and contracting out of the political arena. Ministers no longer waste their time justifying why some service or property in some far corner of a government agency was contracted out or sold. The manager, down three levels, has the information to justify decisions that were made. In short, such a system depoliticizes decision-making in the public sector and effectively neutralizes the spending coalitions and the superficial press.

The OTF cannot overemphasize the urgent need to structurally reform the three major areas of provincial spending: health, education and social services. Spending in these areas cannot be sustained at their present growth rates. Once again, we point to the principles of competition, choice, the measurement of outcomes and the comparison of costs between alternatives.

Focus on reducing resources absorbed by administration. Be aware that the present system has strong incentives to recommend cuts to visible front-line services. Use vouchers to create parental choice, competition, efficiency and quality in the education system. End the costly and ineffective bureaucracy and monopoly of the public sector school system.

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The present welfare system encourages dependence. Shift emphasis from passive assistance to active assistance through training, and from welfare to workfare. Deal with the high cost of transfer payments to municipalities and the property tax burden created by uncompetitive, high-cost, overstaffed municipal and regional governments.

Introduce a value-for-performance framework and competitive tendering of services into local governments as a requirement of transfer payments. Finally, take the heat off government and your political colleagues by legislating spending limits and by creating a framework for greater taxpayer input into spending decisions.

Introduce a referendum mechanism to require taxpayer approval of large capital projects at the municipal level, and signal your commitment to the Ontario taxpayer by announcing a referendum on an effective balanced-budget law.

Turning to the issue of taxation, we would like to comment briefly on the recommendations of Ontario's Fair Tax Commission.

Death and taxes are the two certainties of life. It used to be that the only way to escape taxes was to die, but now even that may change if the Fair Tax Commission gets its way. In the current year's budget, the Treasurer decided to tax the sale of dirt. Now the commission is

recommending he tax us when we're covered with it.

In its quest to find new and more novel ways to tax us, Ontario's Fair Tax Commission is urging this government to tax the dead. Among its 135 recommendations, the commission wants local property tax exemptions for cemeteries eliminated. It also suggests the province sell the Chrétien government on the idea of a national wealth tax of 30% on estates over \$1 million.

On and on it goes; in all, 1,114 pages of the commission's report. The essence of its theme is to redistribute the tax burden by soaking the so-called rich who can afford to pay more, the rich, in its eyes, being families with a combined income of over \$50,000. In a move similar to letting a drunk go on a shopping spree in a government-owned liquor store, it feels Ottawa should give Ontario the power to set its own personal income tax rate structure. As part of its deep-pockets mentality, the number of tax brackets would be increased from three to 10, and the top marginal rate for combined federal-provincial taxes hiked to the 60% mark.

The only enlightened part of the commission's report is what it calls the cornerstone of its recommendations: property tax reform. Market value assessment once and for all would be trashed as the standard for property tax assessment. But its replacement, unit value assessment, would only replace one flawed system with another.

In place of basing assessment on the price the property would sell for in the open market, it proposes moving to a scheme which would incorporate the rental value of the property. By rejecting the more straightforward, simpler method of pure unit assessment, which would only use the physical characteristics of the property, the assessment system will continue to be highly subjective and extremely costly to administer.

Even the commission's most prominent and welcome recommendation, which would shift the cost of general welfare and education from property taxes to the province, falls short of what taxpayers have been seeking. Local school boards would still be able to use property taxes for discretionary spending to the tune of 10% of the total funding they get from the province. Businesses would still get hit with a property tax for education, except it would be paid to the province.

For the large majority of Ontarians who love to hate the GST, the commission suggests pouring salt in a still festering wound which has given rise to an explosive growth in the underground economy. Under the guise of a national sales tax, the scope of the provincial retail sales tax would effectively be broadened to cover a whole range of goods and services which are now exempt.

While we favour the harmonization of the two consumption taxes as a means of eliminating the costly duplication of administration, the bottom line is surely to be that the province gets to milk the cash cow for even more.

Fairness, as the commission would describe it, has nothing to do with equality, nor does it mean reducing the suffocating cost of government. Fairness, in its mind, is penalizing you for making more than the other guy, and that says a lot about the virtue of striving for a better

education and the ethic of hard work.

What Ontarians need in order to achieve fairness in our tax system is fewer taxes not more. We need a system which is simpler, more efficient and one which all taxpayers will buy into as being fair.

We strongly advocate the government move to a single tax system for income, one which will replace graduated or progressive rates with a single rate applicable to both individuals and businesses, one which will remove tax preferences and which will treat all income sources in the same manner, one which is simple to calculate and less costly to administer.

This time around, let's stop tinkering at the edges. It's time to re-engineer government and to move it into the 1990s. We urge the government to undertake reforms which will redefine its role, restructure the method by which it delivers services and which treats all taxpayers equally, without preference or discrimination.

Mr Monte Kwinter (Wilson Heights): I'd like to make an observation and then I'd like to ask you a question. Number one, I agree that one of the major problems that we have with this government is its preoccupation with the revenue side of the equation and not enough attention to the spending side.

Let me give you an example. There was an announcement that the government hired a Capitol Hill group to lobby the federal government to get funds for Ontario, an absolute absurdity. Last week, if you saw the headline story in the Star, they hired Deloitte and paid it \$4.2 million so it could count the computers.

Last week, I noticed an ad that ran in virtually every newspaper in Ontario that just drove me up the wall. They're advertising for members of the Advocacy Commission, nine members, and they took, in the Sun, five sixths of a page and in most every other newspaper in Ontario it was a half a page. I haven't been able to calculate the cost but it had to be hundreds of thousands of dollars. To compound the horror, this morning I opened up the paper and the ad is running again.

I can tell you, if that ad was an inch square they would get hundreds and maybe thousands of applicants, and here they are, spending hundreds of thousands of dollars to get nine people to respond to a particular commission, where as I say, there are probably thousands of people going to apply and they would have applied if it had appeared in the want ads.

Mr Jackson: Which they're going to hand-pick anyway.

Mr Kwinter: That's right, and they've probably picked them all anyway. That is an example of the kind of things that the government is not doing.

What I would like to ask you about is this basic concept of freeing managers to manage, to hire, to fire, to make or buy services, to sell assets with little central interference, to reward performance and to maximize value for money.

How do you reconcile that with a representative democracy, where if you give it to a third-line person and say, "You make the decision, you go out, if you want to sell off some of our assets, that's fine," you then have, I

would think, either anarchy or chaos, where one manager decides, "Yes, I'm going to sell off this public asset," and without any sort of integration as to how it fits into everything else that we're doing? Then how do you deal with the elected accountability, where suddenly someone questions why did you do that, and you say, "I don't really know why it was done, but that was a manager's decision and we gave him the authority to do it." How do you deal with that?

Mr Pagnuelo: Politicians have, number one, got to give the authority to the bureaucracy to be able to make those decisions. You've got to be prepared to do that. You've got to be prepared to manage government the same way you would manage a corporation and you vest your senior managers with the power and the authority to make those sort of decisions.

Senior management in a corporation, the executive in a corporation, set policy and they set the general framework in which they expect their managers to perform and then they let their managers perform. They don't interfere in how they do their job, provided they stick within the guidelines that have been set out, and government can operate exactly the same way. It's been done in New Zealand, it's been done elsewhere, it can be done here. There's no reason why it can't be.

1210

Mr Phillips: I appreciate your thoughts. I wish we had more time to talk about the one tax rate.

Your recommendations on property tax: essentially your property tax will be determined on the basis of, I gather, what you call physical properties?

Mr Pagnuelo: That's right.

Mr Phillips: One of the challenges—and I see your head office is in Ajax—is that it may very well be that a local business would say, "Listen, surely because I have 5,000 square feet here in Ajax I'm not going to pay the same property tax if I had 5,000 square feet in a high-traffic area in downtown Toronto." Or similarly, many people moved to Ajax because they felt they could get a much larger home for less cost than in downtown Toronto.

Somebody shakes their head, but I think there are many people who believe they got a much larger home in Ajax than they could have afforded with the same amount of money in downtown Toronto, in the expectation that their property taxes wouldn't be on the basis of the physical characteristics but on the basis of the value of the property. Is that a concern at all to you, or do you think that can be overcome with your physical properties?

Mr Pagnuelo: The difficulty with when you're looking at the value of property, particularly on the commercial side, is that there can be some real sweetheart deals cut in lease rentals. Rentals themselves don't necessarily reflect a realistic value.

Mr Phillips: Agreed.

Mr Pagnuelo: What you need to look at is in terms of municipal services that are being delivered. You've got to really bring the debate back to paying for what you participate in or what you get and value has nothing in that equation, whereas physical characteristics of a

property in terms of size come much closer to fairness and equity in terms of how you measure what you've received in services.

The other key thing in the debate about property tax reform is administration of the system, and do we need to continue with an unwieldy, large system that's difficult to administer, that's complex to administer, that's highly subjective? When you talk about turning to rent or lease values, how do you determine that for most residential properties? It's going to be very, very subjective.

Mr Phillips: I appreciate your recommendation. I assume you've kind of run the process through and determined that is the most fair way of determining property tax levels.

Mr Pagnuelo: The other thing too is, let's remove a lot of what is on the property tax burden today off the system. Education is an example. That's why we were very strongly in favour of that one recommendation that says the cost of funding education should come off property taxes.

Mr Phillips: And on income tax, your group would support that?

Mr Pagnuelo: Well, moving it to general government revenues. I'm not suggesting it has to come specifically from income tax. We saw the Toronto Star poll on the weekend which suggested people are split right down the middle, and the reason most taxpayers are split down the middle on this issue is because there's a concern that, if it moves over to "income tax," there's going to be another huge tax hike, an income tax gouge, and people are going to end up being net losers as opposed to net gainers.

Really, what the government needs to do is look at transferring the cost of education back to the provincial government, look at being able to reform the system so the cost of education in aggregate can come down. You've got to look at more novel and unique ways of being able to do that. We've suggested in our presentation today that you've got to break the monopoly of the public sector school system.

Mr Carr: Thank you very much for the presentation. As usual, I think your organization has played an important function. I think sometimes you might not think that you do. Certainly last year we had the biggest tax increase in the history of this province and a lot of people were upset with that, but I think you hit the nail on the head. You need to keep saying that we do not have a revenue problem; we have a spending problem.

The poll that was in the Toronto Star this weekend said that most people now believe the one that says cut services, don't increase taxes. The underground economy is nothing but the biggest tax revolt in the history of this country and people will do anything and everything to avoid paying taxes to governments at all levels and of all political stripes.

They don't think the Conservatives have the answer, they don't think the Liberals have the answer and they don't think the NDP have the answer. Quite frankly, if you look across this country, Liberal governments have overspent, Conservative governments—Devine's record

is terrible. No political party can take credit for this. I think fundamentally what you're saying is right. We need to realize that. I encourage you to keep saying it.

I want to ask you a question with regard to the upcoming budget. The Treasurer has said there'll be no new net increase in taxes, but as you know, as a socialist government, they like to social-engineer and rearrange it. Unfortunately, when they increased the taxes in the last budget, the surtax they put on the average middle class—and I use the example of a Ford worker got a massive surtax. When Bob Rae ran across the province in the 1990 campaign and said, "Don't worry, we can have all the spending, somebody else will pay," the workers at the Ford Motor Co in the CAW didn't think they were going to be the ones who got hit with a massive surtax.

My question to you is this: What do you say to a government that still believes that it can increase taxes? Quite frankly, they're going to attempt to do it, whether it's by rearranging it, and all that's going to happen is people are going to move their money to other jurisdictions. I think you've been successful in some regards, but what do you say to the government that still believes there's somebody out there that it can hit up for increases in taxes? How can you convince them not to do it?

Mr Pagnuelo: You can only convince them if they want to listen and if they want to be realistic about the situation. The reality is that people who are in the higher income brackets simply will not put up with it. They will move their assets elsewhere; they will move jobs and businesses elsewhere; they will seek friendlier tax jurisdictions, and wealth, whatever exists and remains in this province, will continue to flee the province. We will end up with a province that has become really poor in terms of seeing its wealth disappear.

The other, more important, thing which concerns me very significantly is the underground economy. That continues to grow because people at the middle-income level are now saying that they're being considered high-income earners and they're being taxed accordingly. They are seeking new and innovative ways; just as government is seeking new and innovative ways to tax us, the average taxpayer is looking at new and innovative ways to avoid tax.

Our concern as a federation is once you have taxpayers move into the underground economy you never get them back; you lose them. Once they start in one area, whether it's alcohol, whether it's tobacco, they will continue to explore other areas. We lose not only the revenues from provincial sales tax and the federal sales tax, but we also lose the revenues from undeclared income tax. What happens is it places more and more of a burden on those of us who are honest about paying taxes, whether we like them or not, to the point where it's going to suffocate the economy.

Mr Douglas Hindson: Mr Chairman, if I just might add to Mr Pagnuelo's comment, I think that perhaps the only way that government is going to come to the realization that we have a serious problem is for this government to understand that really what it's engaged in is theft. Friedrich von Hayek said back in the early 1900s that governments engage in legal plunder and you and I,

or we as average citizens, will respond in kind.

Very often, the average citizen is criticized for flouting the law, ignoring the law. Really what we're doing as average citizens in developing a deeper underground economy is responding to legalized theft from our pockets. I think more and more people are becoming aware that really what we're engaged in, and the tax issues in this country have to do with, is theft of assets and theft of wealth. I suspect that if this continues, we will have a major breakdown in our society in the future.

Mr Carr: Thank you very much and good luck. You do fine work. Keep it up.

Mrs Irene Mathysen (Middlesex): I have a couple of quick questions. First, in your brief you say that Ontario was dangerously exposed to transfer payment cuts from the federal government that had little choice but to make spending cuts. I wonder, given that about 40% of federal revenues come from Ontario, if you could speculate for me, if the federal government is apparently so cash-strapped, why it only cut transfers to Ontario and didn't cut the transfers to Quebec? As you know, we get 29-cent dollars and Quebec gets 50-cent dollars.

The second question is, I understand this voucher system for education that you're talking about but my concern is, would that not create a kind of disparity in education among the rich and not so affluent? Won't public education be underfunded to the point where less-affluent children get a lesser education, in the same way that the Americans are experiencing?

Mr Hindson: If I might respond. I'd like to take the second question first. I think it's important for society to understand that one of the real resistance areas that has to do with changes in education is that the education system is fundamentally re-engineering our society without any acknowledgement or approval of the society to do so. Where they have engaged in the voucher-type education systems in the United States, there has been absolutely no indication that there has been a disparity arise.

Let me give you an example. In Harlem, which is one of the poorest areas of New York, they raised the level of their education substantially to out-of-state areas that had higher levels in the first place simply by giving parents the choice of where they put their children.

The second aspect of the voucher system is that it does in fact force costs down. I'd like to remind this government that teachers in this province, when you work 250 days a year, are being paid the equivalent of between \$70,000 and \$80,000. Our teaching staff are substantially overpaid. If you take and put education into a competitive environment, you'll have your costs of education come down to what is more competitive both domestically in North America and internationally.

I also would like to remind the government that Canada's education expenditures—and as was quoted in the Economist, we spend more money than any other country in the world with no significant benefits to show for it. I think the voucher system and giving people the ability to structure the schools around a system whereby parents, a principal and probably a board rep would effectively hire, they would set the curriculum along

guidelines and they would remove the fluff from the system that today is really getting in the road of properly educating our society.

Mrs Mathysen: So education would become a business rather than a service.

Mr Hindson: It doesn't necessarily have to become a business, no; it can remain in the context of a public system. The only thing the government does by giving a voucher to a parent is allow that parent to choose a school that perhaps has higher standards and has a higher quality of education.

We use "quality" in this province in a very bad sense. We don't really know what educational quality is. It's something that we get fed by the educational élite and really it's the parents who are your customers, it's not the kids. The parents are the ones who should be making these decisions and they're capable of making the decisions, as has been shown through numerous jurisdictions in the United States where they've attempted. Also, the system is moving into place in Great Britain, not without some hiccups. Any time you try to change a system it's going to have difficulty, but it's in place in Great Britain as well.

To come back to your first question on transfers from Ottawa, I think what you're involved in is a political play and I don't think Ottawa is in any different condition financially than any other political jurisdiction in terms of its transfers.

We have to understand that what we're doing with debt in this country is we're not picking up the costs for this, ladies and gentlemen, we're saddling our children, we're saddling our grandchildren. It is taxation without representation and it's high time all of us, irrespective of ideology, became aware of what we're doing. If we sink, if you want to see this society collapse, and collapse in a sea of debt, if you want to see the repercussions, then I suggest you continue doing what you're doing.

The Chair: Thank you for the presentation.

The committee recessed from 1225 to 1409.

ONTARIO MEDICAL ASSOCIATION

The Chair: The first presenters this afternoon, from the Ontario Medical Association, are Dr Tom Dickson, president, and Peter Fraser, chief executive officer.

Mr Peter Fraser: Thank you, Mr Chairman, and members of the committee. I'm Peter Fraser. It's a pleasure to be with you this afternoon to make a few comments on the report of the Fair Tax Commission, and I'd like to compliment the government on creating this commission and also Monica Townson and her colleagues for producing a very comprehensive analysis of some very complex issues faced by Ontario taxpayers.

I think all of you have our written submission. I don't intend to go through it in a lot of detail because of the time constraints. But before I talk about the three issues I'd like to address, I'd like to provide you with a little background which will perhaps help you understand why we're as concerned as we are about some of these measures.

I think all of you know that under the social contract we signed last summer, physicians' fees are frozen until

March 31, 1996. You also probably know that physicians' expenses of practice account for almost half of their gross income. Last year, the government extended the employer health tax to the net earnings of self-employed individuals, and for physicians this represented a further 1% tax, if you will. A couple of years before that, the federal government introduced the goods and services tax, and this had an impact on physicians as well and increased their expenses by about 2%. As you all know, physicians' fees, as far as insured services are concerned, are limited to the benefits paid by OHIP, so there really isn't any effective way for most physicians to pass on these increased costs of practice.

Now I'll just talk a bit about the three issues that are the most important for us today.

The first has to do with the retail sales tax and the possibility that the provincial government might harmonize the provincial sales tax with the goods and services tax. You may be aware that doctors' fees are exempt from the GST, which means they can't pass this tax on to consumers, whereas physicians do have to pay GST on various goods and services used in their practices and, as I mentioned earlier, this increased their expenses by about 2%. Needless to say, OHIP hasn't recognized this increased cost of practice in the schedule of benefits.

You may not be aware that hospitals are zero-rated for GST purposes, which means they get input tax credits for GST paid on goods and services purchased by hospitals. We recommend to you that if Ontario follows the GST approach with respect to the retail sales tax, you consider granting physicians input tax credits, just as hospitals have these credits.

The second issue is the recommendation to freeze the registered retirement savings plan contributions at current levels. This would be a problem for physicians. Most physicians are not able to start contributing to their retirement savings until their mid-30s, and as a general rule physicians don't have as long to contribute as most other self-employed individuals.

The RRSP tax reforms which began in 1990 were designed to produce a level playing field in terms of benefits between participants in registered pension plans and retirement savings plans. I can tell you that there are relatively few physicians today who are able to retire with the national revenue maximum annual pension of \$5,000 per month. There are many members of private pension plans who are able to retire with this maximum and sometimes more. We would therefore strongly recommend that these RRSP limits not be frozen. We would also recommend that RRSP contributions be treated as deductions from taxable income rather than as a tax credit, as suggested in the commission's report.

Third, the recommendation to remove the graduated approach to the employer health tax will impact on physicians, who usually have one or two employees. Once again, this higher tax will mean an increase in the cost of practice with no ability to pass it on.

In the interest of time, I won't say any more about our submission. I will try to answer questions when it's appropriate.

Dr Tom Dickson: I'm Tom Dickson, president of the Ontario Medical Association. Last week, the Treasurer of Ontario painted a bleak economic picture for this year. The minister expects \$1.6 billion less in revenue for fiscal year 1994-95 than projected; this despite the province's three-pronged attack on its deficit last year.

Last year, 1993, was a difficult year for everyone. The medical profession, both as deliverers of quality health care and as taxpayers of this province, certainly felt the effects of the province's deficit reduction program. Wage cuts under the social contract will reduce gross incomes of physicians 5% this year and a continuing 5% in each of the next two years. A series of legislative measures will remove hundreds of millions of dollars in public funding from the Ontario health care system.

Taxpayers were also hit with a series of tax hikes, some of which hit doctors more profoundly than other groups, including other professionals. Mr Fraser has already discussed a number of proposals in the Fair Tax Commission report tabled last month that, if adopted, will only increase the growing frustration within the medical profession.

It's difficult to imagine the fiscal situation getting any worse, but as the minister himself pointed out, we'll have to wait a few more months for the economy to pick up steam. The OMA is well aware of the fiscal pressures facing government and the fact that health expenditures consume one third of the operating expenditures of the province. It is our job to preserve the integrity of the province's health care system and continue to provide the quality health care we were trained to provide.

We know more changes have to be made. Efficiencies must improve, and doctors have a major responsibility in managing the health care system effectively. The OMA has been engaged for the past two years in a sincere attempt to assist the government in the management of the health care system and achieve significant savings so that the people of Ontario retain access to high-quality, medically necessary services. That is essentially what our agreement with government did in 1991.

The 1991 framework agreement formalized the profession as a partner in the management of the health care system. Doctors already had a social contract in place long before anyone else, and we were making it work.

The OMA- and government-sponsored joint management committee, or JMC, has made progress. It's estimated that JMC initiatives have saved taxpayers hundreds of millions of dollars already, and the potential for more savings continues to increase as studies are completed and policy objectives come to fruition.

There are more than 50 projects under way through the Institute for Clinical and Evaluative Sciences to assess medical technology, analyse the way physicians practise and deliver medical services, and to develop new clinical guidelines. The JMC is working, but it hasn't been easy.

Then in the summer of 1993, the OMA and government signed an agreement to implement a number of expenditure control measures, to commit the government to a series of reform initiatives and to meet the government's legislated social contract requirements. Through

this agreement, we have tried to temper the slash-and-burn approach to health care that the government had initially proposed earlier in 1993. We simply could not stand by and let this happen.

The OMA and government, though this agreement, will establish rational measures to control the supply and distribution of physicians in Ontario. The OMA and government will be studying voluntary retirement plans for older physicians. The OMA and government are developing special incentive programs to encourage physicians to practise in underserved areas.

We are also pressing the government to adopt a systematic approach to drug reform, including a drug utilization review, improved eligibility under the Ontario drug benefit plan and guidelines for physician dispensing.

Health card fraud will finally be given the attention it deserves, provided government lives up to its commitments. In addition to a new photo ID card for adults, government and doctors will establish a verification and reporting system to detect and prevent fraudulent use of health cards.

1420

With consultation, we are also improving the management of third-party referrals for medical services, tightening the fee schedule and working with government and the public on the delisting of certain medical services considered to be discretionary, at least by some.

We're examining alternatives to fee for service, including alternative payment plans for clinical teachers and physicians working in settings poorly served by traditional fee for service, such as the recent agreement mentioned in the newspapers and small-volume emergency departments around this province.

There are activities under way to educate the public on responsible and appropriate use of the health care system. We have urged governments for years to do this.

We will work with government and the public to ensure that the medical services we provide are necessary and, more important, appropriate.

If total expenditures on physician services go beyond the limits we have agreed to with the government for the next three years, physicians will be obligated to pay back the amount exceeding these limits.

For my members, the most pressing concerns in 1994 will arise from the accelerating effects of the social contract on our profession and on the health care system as a whole. Our ability to cope with increasingly severe health and access problems will be tested like never before. Our challenge is to do more with less, since patient demand continues to grow. The general population is aging and demanding more service, and the prevalence of chronic disease is on the rise.

Access problems will be worsened by hospital bed closings, never mind the compounded effect on hospital physicians, who are already coping with the impact of the social contract on hospitals, including Rae days and reduced operating room availability.

Physician groups within certain specialties are aging rapidly and those retiring are not being replaced; as an example, general surgery.

Ontario's academic health science centres are threatened. With the constraints imposed on the OHIP budget by the expenditure control plan and the social contract, there is a great potential for compounding negative effects on the funding available to support the work of faculties of medicine. The result could be a loss of much of Ontario's ability to educate future physicians and conduct research.

Pressure on clinical faculty to earn clinical income has left insufficient time for them to pursue research and teaching. They too are subject to administrative pressures and income ceilings, resulting in a decline in the appeal of academia. As a result, we often are losing our best academic physicians to greener pastures south of the border. This can only lead to a shortage of clinical teachers within the next decade, undermining the very foundation of our health care system.

Physicians in smaller communities lack access to appropriate facilities and backup personnel. They are seeing more patients, working longer, taking less time off for continuing medical education and vacations. Many of them are facing burnout. The OMA is in the process of designing a locum program which hopefully will alleviate some of the difficulties facing these physicians.

All of this propels the province down a dangerous path. Patient care will suffer. It has suffered.

Compounding this already bleak situation is the threat of more controls, caps and higher costs placed on the medical profession. Increasingly, it seems physicians are being singled out, although we are net contributors to the system. We employ thousands of Ontario citizens and stimulate and support our local economies. The medical profession is doing its part. It has and will continue to act responsibly and professionally.

While it has been, sadly, tempting to do otherwise, we have fostered a strong working relationship with the government in hopes of improving the delivery of medical care. We've been good partners. On the other hand, the government has not held up its end of the 1993 interim economic agreement. It has fallen far short in several areas, particularly in its commitment to introduce measures to reduce utilization.

Here are but a few examples:

As committee members may be aware, the province recently rejected OMA recommendations aimed at helping the medical profession fulfil its social contract obligations in an equitable and planned fashion. To meet government's expenditure reduction targets on physician services, OMA council adopted resolutions calling for mandatory unpaid social contract days for doctors, as well as an individualized approach to a year-end clawback should recovery of additional funds be necessary. The Minister of Health's response was simply no.

A pilot public education program on responsible use of health care services was delayed for two months. The small-scale program in London was launched only two weeks ago. From our perspective, this project and others to follow have to be more than PR exercises. Educating users is critical to producing significant savings in health care.

The series of commitments to reduce health card fraud mentioned earlier, including a new health card and elimination of the version code, has been delayed indefinitely. We have received no assurance that the Minister of Health has moved on her promise, agreed to in our agreement, to introduce the new health card. An agreed deadline of December 31, 1993, for an announcement was ignored.

Government has also fallen far short on its promise to help us control physician supply and other distribution measures such as controlling the influx of doctors from outside the province, thereby stabilizing physician supply. These delays and others not only have prevented the government from recouping significant amounts of money but have only further angered and alienated my members.

Is this government serious about health care reform that will achieve real, long-term efficiencies and maintain high-quality care? We're becoming increasingly frustrated with a government bent on imposing hard caps on expenditures of physician services while repeatedly failing to fulfil its obligations to enact programs that would reduce the abuse and misuse of public funds.

As you prepare your recommendations and reports and as the Finance minister prepares the provincial budget, we urge you to consider the following:

We have reached the point where we have grave concerns about the depth of cuts being made to health care without a concomitant understanding of their impact.

Reform for its own sake can never work. It has to be undertaken in such a way that will allow the system to be stable and effective during and after the process of reform. Reform must rely on the expertise of the people who are currently making the system work.

The system is at a very delicate point, with no fiscal relief in sight and an aging, increasingly demanding population which continues to be promised unlimited access to all services.

Our challenge as physicians is to continue providing the care we were trained to provide, despite government's awkward and often, it seems to us, illogical attempts to reform the system by cutting deeply here and there.

We subscribe to health care reform that does what it is supposed to do: increase cost-efficiencies, improve access and in particular maintain or, better still, enhance the quality of care we can provide to our patients. Implementing that kind of reform without a fundamental grasp of how all the pieces must fit together is doomed to fail.

If universal, comprehensive coverage can no longer be provided by government, government must say so. This intellectual dishonesty about the ability to maintain the system as we know it serves no one well. Despite the temptation to blame physicians, we are part of the solution. We've shown what we can do when we can work together towards real, rational and enduring change.

On behalf of my members, I urge you to remain sensitive to the health care needs of our society. In striving to contain costs, we must not jeopardize the quality of the system we all cherish. Please let us take care of our patients without more distractions, incursions and economic barriers. Our patients deserve no less.

Mr Phillips: Thank you, Dr Dickson and Mr Fraser. I'm trying to understand the financial side of this because at some stage we'll be probably trying to comment on what money should be put in the budget for health care. Is the easiest way for us to understand it to look at your August 1993 document on the interim economic agreement? Would that tell us what is in the budget for the Ontario taxpayer portion of the doctors' fees?

Dr Dickson: That document lists the gross amounts that are budgeted for the current year and for the subsequent two years for physicians' services, yes.

Mr Phillips: So this year's budget—I'm looking at page 4 of that document you handed out—is something like \$3.9 billion, going down to \$3.864 billion in 1994-95 and \$3.864 billion. Is that fair?

Dr Dickson: Yes, it's flat-lined in effect, at a lower level.

Mr Fraser: You take \$100 million off the \$3.9 billion in the current fiscal year and \$145 million off that number in 1994-95, 1995-96.

1430

Mr Phillips: I'm glad to hear the joint management committee is working; not perfectly, I take it from your comments, but your feeling is it's working. Last year there was a figure given to us, but I haven't got a figure this year. How much would the physicians be able to bill outside of this for third-party services?

Dr Dickson: In comparison to the \$3.8 billion, you mean? That's a difficult number to quantify, but with workers' compensation and third-party services, what would be a rough guess, Peter? It's not that large.

Mr Fraser: No, it's not. It would be strictly a guess. It could be, I suppose, \$50 million, \$100 million. We just don't know. The third-party legislation that was in the 1993 agreement hasn't really taken effect yet. The government's indicated that it will take effect on April 15 of this year, and I think only time will tell what that really means.

Mr Phillips: It is in the \$100-million range as opposed to \$10 million or \$500 million?

Dr Dickson: Oh, yes. For the vast majority of physicians, their services are entirely included within what's mentioned there.

Mr Phillips: It's one of the things I'm interested in. The federal numbers on health care show that about 80% of health care is funded from the taxpayer publicly and about 20% is funded elsewhere. I'm interested in understanding where we're going on that. This says to me that on the physicians' fees it's still 98% funded.

Dr Dickson: Exactly.

Mr Phillips: The incorporation provision: One of the things we're hearing a lot about at these meetings is tax expenditure programs, and in some respects incorporation is a tax expenditure program. I guess the proposal is that your physicians could incorporate as small businesses and take advantage of the small business taxes. Have you any indication for us of what we should expect in terms of the numbers who might incorporate on the tax expenditure side of that?

Mr Fraser: I think the number will be relatively small. I'm sure you can appreciate that this only makes sense for a physician who has some discretionary income and someone who's got a few high-earning years. I would be surprised if more than 20% of the profession would look at incorporation seriously.

Mr Carr: You mentioned the social contract and higher taxes. Do you have any figures on the number of doctors we're losing in the province? Is it up or down, and what specialties are leaving, if any?

Dr Dickson: It's difficult to pin down exactly Ontario numbers. We know that the most recent numbers for Canada at large were at a record high in the current year, around 650 across the country. Approximately 40% of the doctors in the country are in Ontario, so presumably our numbers represented 40% of that, which would place us again at a record high, higher than we've seen since the mid-1970s, when the numbers also went up.

We've done some private polling among chiefs of staff around the province and there's absolutely no doubt that there's an accelerating trend in physicians leaving this province, often from two particular areas: either rural and isolated areas, or university teaching centres. We're losing particularly obstetricians, gynaecologists, neurosurgeons, that kind of group, the highly trained specialist. We're losing them in vast numbers.

Mr Carr: Is that going to lead to a shortage at some point?

Dr Dickson: Absolutely. The story is that out of 10 neurosurgeons who graduated in this country last year, all left the country. As time passes, we will experience a shortage, and as the training time interval to replace those people will be at a minimum five to six years once the problem is recognized, it'll take many years to correct the problem, unless we want to search overseas.

Mr Carr: That's scary. Not only what's happening now, but the future is even scarier, particularly for some of us who are a little younger and have some time before we need some of the services, hopefully.

I want to get to health card fraud. Any idea how much it's costing the province right now?

Dr Dickson: The best numbers we've seen is that it's somewhere between \$20 million and \$700 million, and that's the most frightening part of it: Nobody knows. It's a hidden cost to the system. It's a place where we obviously should save dollars first, rather than cutting proven necessary care for people who are insured. If we could eliminate that aspect from the system, whatever the quantity is, it's all to the good. It means we have money—extra money, in fact—to spend on Ontario residents who are insured and do deserve the care.

Mr Carr: What does the OMA think it is? It's a big range; doctors are a little more exact than that.

Dr Dickson: I don't know. I suppose the best number we would feel comfortable with would be in the \$200-million range.

Mr Carr: One last question, about the public debate on health care: I don't think there has been public debate. Politicians of all parties, both at the federal and provincial level, are scared to talk about it. The former Prime

Minister was going to throw herself on the railroad tracks to protect it. This Prime Minister I think has done a good job. He's going to set up a public debate on health care, and I think it needs to happen.

Your joint management committee is great, but the public hasn't been involved. They are starting to sense some of the problems in health care now. How would you like to see the Ontario government proceed to get the public involved? Cuts are going to have to happen. We're going to have to go through a tremendous period; it's not going to be politically happy for any of the political parties out there. We need honest debate. How would you like to see it set up?

Dr Dickson: The number one thing we have to get over is our reticence about debating health care publicly. It has been, as everybody refers to it, a sacred trust, and everybody's afraid to touch it because it's politically so hot. We have to involve the public. Clearly, the decisions about what the system is going to contain, what it's going to pay for, who it provides services for, must not be left to politicians and it must not be left to the providers and physicians as a specific group. The public and society at large have to honestly debate what they want out of their system and what they're willing to pay for. Once having decided that, then they have to live within that. Right now, unfortunately, or maybe fortunately, we're trying to be all things to all people, and it's a very expensive system. It has evolved for 25 years and it's time to take a hard look at what we need and what we can afford.

Mr Carr: I'd agree 100%. Good luck.

Mrs Karen Haslam (Perth): I'd like to start with the idea of the joint management committee and the fact that both partners in that joint management committee were to bring forward suggestions for things to be delisted. One of the things suggested, and I believe this came from the medical side, was the delisting of your annual checkup. Am I correct that came from the doctors and the OMA?

Dr Dickson: Yes.

Mrs Haslam: If that is delisted, that then becomes a discretionary charge that doctors may put up on the wall along with a list of other things they have up on their wall already that they can charge above and beyond what OHIP pays. Am I correct in that?

Dr Dickson: If it were an uninsured service, yes.

Mrs Haslam: That's right. I find that very interesting when we're talking about lower costs for health care and the fact that doctors have a discretionary availability to other funds.

On page 3 of the first submission, January 25—I believe this was given by you—it says that approximately 800 physicians had billings above the threshold levels of \$450,000. What percentage of doctors is that?

Mr Fraser: About 4%.

Mrs Haslam: Then 4% of the doctors are making over \$450,000 a year.

Dr Dickson: That's incorrect.

Mrs Haslam: Then what is correct?

Dr Dickson: To use the term "making" implies that that's what—

Mrs Haslam: Being paid by OHIP, over \$450,000.

Dr Dickson: Billed in their name, that is correct.

Mrs Haslam: Okay. I would like to know a little about one of your programs. On page 2 you say you are looking at voluntary retirement plans for older physicians.

If I remember correctly, when I was in the ministry, there was a minor percentage of doctors over 80 whose billings to OHIP were in the millions of dollars. I wondered how successful your voluntary retirement plan was through the OMA.

Dr Dickson: There's obviously some confusion on that. There are very few physicians over 80 years of age.

Mrs Haslam: That is what I'm saying, a minority. There is a percentage of doctors over 80 years old, but the billing to OHIP is in the millions of dollars.

Dr Dickson: Oh, for all of those individuals combined. That's not to suggest that any one of those individuals is billing \$1 million.

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Mrs Haslam: No. They couldn't, because we're looking at a threshold of \$450,000. I'm saying there is a percentage of doctors over 80, a small percentage, but the billing to OHIP is in the millions of dollars. I'm asking how successful your voluntary retirement plans for older doctors are.

Dr Dickson: The agreement was that we would develop a voluntary retirement plan with government, and that hasn't happened.

Mrs Haslam: You're still working on that?

Dr Dickson: It hasn't even been discussed at this point. It's one of the things—

Mrs Haslam: Is this part of your joint management committee, that will be discussed at that?

Mr Fraser: Yes.

Mrs Haslam: Fine. On page 3 you say, "The general population is aging and demanding more service, and the prevalence of chronic disease is on the rise." It was my understanding that one of the major problems for seniors is overmedication, and that again would relate to how doctors prescribe to this senior population.

Dr Dickson: The overmedication problem is a legitimate and genuine one. It's not necessarily prescribed medications; it's all medications they take. Seniors are heavy users of over-the-counter medications. They often are double- or triple-doctoring and there's often confusion about who they're seeing, and often there's simply confusion on the part of the patients themselves over what they are to take. We're trying to address that through pharmacy and through coordination through computer systems.

Mrs Haslam: I'm glad you're working with the pharmacists, because the pharmacists have come and said, "There are times when I see an incorrect prescription, or there are times when I would like to have more input and be able to contact doctors when we see this happening all too often with seniors."

On page 4, you say, "The medical profession is doing its part." On page 5 you say, "We've been good partners."

I'd like to go back to a comment the first gentleman said about passing on, that you can't pass on some of the financial costs of doctors. In small rural hospitals right now, doctors are giving ultimatums to hospitals indicating that unless they pay them extra for emergency on-call, they will withdraw their services from the hospital for that care. Given that the comments are, "We are good partners," and "The medical profession is doing its part," I wondered if you'd comment on that particular issue. Obviously, I have a rural riding in my background and I'm concerned about this situation. I don't think it's all the doctors' fault. I'm going to be very upfront here. I'm not saying it's all the doctors' fault. I'm just concerned that this is what is coming about and the fact that it's around more money.

Dr Dickson: It's not as simple an issue as that. I'm glad you brought this up, because this is a severe problem that must be solved, and we've agreed to work with government and the OHA in trying to solve it.

One of the difficulties we have in keeping doctors in small rural areas is burnout. These individuals often are working every day and every night and are expected to be on call 365 days a year. Quite frankly, they can't do it. It's intolerable to them. Their families are complaining. We cannot attract people to go and work in rural areas. Once they get there, we can't keep them there because the working conditions we impose on them are totally unacceptable.

One of the parts that is most unacceptable is being forced to be on call in an emergency department in the evening, which may not generate any income whatsoever, then be expected to do a full day's work the following day in the office serving an underserved community. It's a problem that must be fixed. The doctors have been living with this for a generation now. We can't take it any longer. It needs to be fixed.

Mrs Haslam: What about going away from a fee-for-service situation to another method of payment for doctors?

Dr Dickson: For these situations?

Mrs Haslam: No, period.

Dr Dickson: The OMA has always supported other methods of payment than fee for service as long as physicians and patients have the right to move in and out of that system voluntarily. We do in fact support an alternative payment system for physicians in these small-volume emergency departments. We've stated that already.

Mrs Haslam: Not emergency. I meant fee for service, period. I know my time is up.

The Chair: Our time has expired. We must move on. I want to thank the Ontario Medical Association for making its presentation before the committee this afternoon.

ONTARIO HOME BUILDERS' ASSOCIATION

Mr Stephen Kaiser: Good afternoon. My name is Stephen Kaiser. I am president of the Ontario Home Builders' Association and I am a builder in the Niagara area. With me is Ward Campbell. Ward is vice-president of the association and a builder in the Hamilton area.

I understand that you are interested in our comments on budgetary items and on the recommendations that were released in the Fair Tax Commission's final report. I also understand that we have 30 minutes. In light of the time constraints, we will just touch lightly on some major themes and then throw things open for discussion. We have circulated a draft copy of our submission to the Treasurer for the 1994 budget. It provides a more detailed look at the points we will be raising. I will start off with the tax commission, and then Ward will talk about the state of the housing industry and relate it to the budget.

In commenting on the commission's recommendations, I want to make it clear that I am setting aside fundamental issues about the political ideology that runs through the report. If we got into that debate today, I am not sure when we would adjourn. What I want to do instead is focus on two very specific issues that affect the home building industry. These issues are the underground economy and development charges.

The commission identifies the home renovation industry as a major source of black market activity. They are correct in that assessment and we said as much at the standing committee hearing last October.

The commission then goes on to discuss two possible approaches to curbing underground activity. One approach is to have customers withhold the tax that is payable on a renovation project and the other is to raise penalties and increase enforcement. Neither of these options will work.

The idea of having the customer withhold the tax will not work because that in effect is what they are doing right now. Most cash deals are done at the instigation of the customer. These folks will gladly withhold the tax. The only problem is, the group they are interested in withholding the tax from is the government.

It is very important that this point be understood. The black market is about getting more for less, there is no disputing that point, but it goes much further. It is about saying to the government, "You get enough of my money and you are not getting any more." If you do not understand this point or if you do not accept it, you will not be able to deal effectively with the black market. This is also the reason why stiffer penalties and increased enforcement will not work. If you follow this option you will only be adding fuel to the fire.

I think it is important to point out that the industry is as interested as government in seeing a reduction in black market activity. For the government the underground represents lost revenue. We think it is in the range of \$1 billion a year. For industry it means unfair competition, but we are very concerned that any steps to control the black market do not simply tip the balance even more against legitimate business.

The other recommendation by the Fair Tax Commission that I want to touch on concerns development charges. As you know, the commission recommended that education development charges be abolished. We agree with the reasoning behind this decision and we fully support the recommendation. The only thing I would want to add is that the Development Charges Act was conceived and implemented during a time of rapid

growth. For a number of reasons, the market at that time was willing and able to absorb large and frequent increases in costs. The rapid growth we saw in the 1980s is not likely to return. Even more important, many of the factors that made buyers willing and able to absorb price increases are no longer present and they are not likely to re-emerge.

For both of these reasons, I believe the Development Charges Act is the wrong piece of tax legislation at the wrong time. In years ahead it will bring more harm than good for both municipalities and the industry. I strongly urge the government to rethink and fundamentally revise this legislation.

I recognize that I've been brief and have likely raised a lot of unanswered questions. I will be happy to try to answer these, but first I want to turn things over to Ward to talk about the state of the housing industry and specific budget items.

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Mr Ward Campbell: Good afternoon. Last year, 1993, was the worst year the home building industry has undergone since the recession in the early 1980s. There is a tendency to ascribe a lot of the weakness in 1993 to the cutbacks in non-profit housing. It is certainly true that the majority of the 20% decline occurred in multiple-family units, but the single-family market also declined. That is bad news.

What I have now is good news, with some cautions. These cautions carry important implications for government policies in general and tax policies in particular. I'm going to dwell on these cautions and implications, so in effect I will be looking at the empty half of the glass. But I do not want to lose sight of the full half: The good news is that most signs suggest we are poised for a recovery in the housing industry in 1994 and beyond.

The cautions I want to discuss fall on both the demand side and the supply side of the market. On the demand side, we have a consumer who has had a lot of wind taken out of his or her sails. We can talk about a return of consumer confidence, but consumer confidence should not be confused with the free-spending, devil-may-care attitude of the 1980s.

Household debt has more than doubled since the recession in the early 1980s, and the debt service ratio for households has climbed from below 8% to nearly 10%. On top of this, many people have seen portions of their equity eroded and they have seen growth in some or all of their savings stalled. Put all this together and you have a consumer who is very sensitive to anything that reduces his or her buying power.

The implications of this are simple: The government should not do anything that reduces consumer buying power. That means no increases in taxes that reduce disposable income, it means no increases in taxes or fees that add to the cost of products, and it means no changes in regulations that add to costs. I will return to the point about regulations in a minute, but first I would like to shift attention to the supply side.

Our forecast for 1994 is for a very modest recovery that will still leave us below the 1992 levels. This

forecast is in line with the government's own forecast.

One of the key factors in our forecast is the availability of serviced lots. Even if demand were higher, there are not enough fully serviced or draft-approved lots to meet a demand that is higher than what we are forecasting.

The Urban Development Institute estimates that there is an eight-month supply of lots in the greater Toronto area. These lots are scattered across the entire region, so it would not take much of an increase in sales in any area to reduce supply and drive up prices. In the near term, a small price increase might push some fence-sitters and stimulate sales. But for every fence-sitter who is pushed forward, there are more who will back off. As I explained earlier, we are not on the threshold of another housing boom.

The sensitivity of the consumer to price increases and the short supply of building lots bring me back to the point I raised about regulations. Two weeks ago, we held a press conference to describe the impact that the building code changes have on the housing industry and the economy. The last two rounds of code changes have added upwards of \$8,000 to the price of a house. Our estimate is that an increase of this magnitude has the potential of forcing 125,000 families out of the market.

A similar point needs to be made about the approvals process. The supply of land can be limited in two ways. One is to slow down the process so that supply cannot keep pace with demand. The other is to place restrictions that limit the amount of land that can ever be developed. Either of these limiting factors will drive up the cost of lots that are available and will force families out of the housing market.

The government is currently considering a number of changes to the planning and approvals process that will trigger both of these factors. The policy statements that are now undergoing a section 3 consultation are vaguely worded, and they are not accompanied by implementation guidelines. This makes it almost impossible to assess the full extent of their impact, but it is safe to say that less land, not more, will be available for development.

A bigger problem, however, lies with the vagueness and uncertainty. It will slow the process as builders and developers, municipalities, provincial agencies and other interested parties attempt to sort out their differing interpretations. Inevitably, this will mean more trips to the Ontario Municipal Board.

As I mentioned at the beginning of my remarks, we are poised at the beginning of a recovery, but this is not a recovery that can be taken for granted. Decisions about key government policies will go a long way towards determining whether the recovery actually occurs.

The Treasurer should ensure that there are no tax increases in the budget that will reduce disposable income or increase the cost of products, and the Treasurer should convince his cabinet colleagues that the first and overriding priority in any debate over policy should be its impact on costs.

As Stephen warned, we have covered a lot of ground in a hurry. Most of these points are developed in more detail in our written submission that we circulated. We

will now try to answer any questions you might have.

Mr Carr: On page 4 you talked about the government's commission on planning and development. You state there that you basically have some sympathy with the goals and so on. If it's left in place, the way it's going now, will it be good or bad for your industry?

Mr Kaiser: I'll answer that and then perhaps Ward could fill in. We have deep concerns in regard to the process right now and the consultation period and deadline that's before us. The critical point for our industry is that we finally see some light at the end of the tunnel and a chance to get this industry going and back on its feet. Maybe you could compare it a little to the Super Bowl and the coach walking in an hour before the game and saying, "There's a whole new direction for game plays," or whatever, and as far as implementation guidelines are concerned, not even coming up with a play book in terms of how this is going to be carried out. We have deep concerns in regard to the process right now.

Mr Carr: On page 2 you also say that because of a lot of regulations, "It is clearly very difficult for the private sector to provide affordable housing for the all-important first-time buyer." As you know, the government's out of money. We had the non-profit housing people in last year. In Mississauga, the waiting list is 7,200. They wanted 800 new units and they said, "Even if we get them, the waiting list will be longer next year." I think it's very clear that without the private sector, we'll never solve the housing problem.

You paint a bleak picture. You're saying the picture's fairly bleak because the public sector can't afford to build non-profit housing, especially when it does it at two and three times the cost of what the private sector does it for. Notwithstanding that, there isn't enough money even if they were efficient in doing it. You seem to be saying here that the private sector can't afford to do it because of a lot of the regulations. If we stay where we are, what do you see happening to your industry over the next couple of years?

Mr Campbell: First, I'd like to say that the private sector is meeting a large portion of the demand of first-time buyers, especially in the condominium market and the small singles. You'll see it all over the province. What we'd like to say is that we want the government to make sure it doesn't make any changes to any regulations that are going to slow down the process we're already dealing with. Quite honestly, we'd like to see the government put a moratorium on all new regulations for the next couple of years so we can just get caught up with where we're at and work from there.

Mr Carr: The scary part is that we hear this from different industries. It's not only yours. Every industry is saying the same darn thing about the regulations, and that's even scarier, because it isn't just your industry that's facing this problem. As you can well appreciate, we deal with different industries rather than your own.

The question of development charges: You've been very clear about that. You've laid out that there was a time when they didn't create too many problems. What would you like to see the provincial government do on development charges?

Mr Kaiser: I think you have to understand the underlying issue in regard to development charges. I heard it effectively put forward by a gentleman at a council meeting when he explained that effectively you were asking the new home buyer to pay this development charge up front, to be part of a community and pay for every new service, be it the added infrastructure and everything that is encompassed within the development charges, yet on his first tax bill, he's then asked to pay for repairing the old within the community. I think the unfairness of that was pointed out.

Mr Carr: What percentage of starts do you think development charges have killed in your industry? How many more starts would we have had had we not had development charges? Any idea? A ballpark guess percentage-wise?

Mr Kaiser: It's hard to put a number on that. The reduction in housing starts that our industry has seen is due to many different factors, and certainly development charges would have to be one of those factors to be considered.

Mr Carr: It's a challenging time. Good luck.

Mr Campbell: If you look at it, you'll find that the effect of an \$8,000 price increase would put about 125,000 families out of the housing market. You're looking at those kinds of numbers. So for every \$2,000, you're looking at one percentile of your market.

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Mr Sutherland: When you're talking about development charges, when they were coming in, interest rates were much higher. Some of that would have to be taken into account, would it not, in terms of what your figures are and how many people would be or wouldn't be?

Mr Kaiser: Certainly. As we mentioned, there are many factors. We've seen lumber go up 67% in the last year. You have to look at all those factors combined.

Mr Sutherland: There are a lot of variables in it.

Mr Kaiser: But certainly when you add a cost on, you knock people out.

Mr Sutherland: You commented about regulations. Not to make light of the severe tragedy in California, but I wonder how home builders make any money in California with their very strict regulations and building codes for everything out there. It would be interesting to see how they get stringent building codes but obviously people are still making money. There must be some way they're able to have stringent building codes without extra cost.

You said no new tax increases in your submission. I didn't see any comment in either of your submissions regarding what the Fair Tax Commission has recommended about taking the education portion off the property tax and looking at using other forms of taxation, income tax etc, to pay for education. I wanted to know whether you thought that would have either a positive or negative impact on your industry in terms of new homes and what potential taxes would be.

You didn't give us any estimate as to what your organization felt the number of housing starts would be for the 1994 year. We've had several forecasters in and

they've given us some estimates. I'm just wondering if your estimates would be similar to theirs. If you did, I didn't see it. I'm sorry.

Mr Kaiser: Good. I'll try to answer both questions. On the education development charges, obviously we're in favour of the recommendation of the Fair Tax Commission. As you know, we have a challenge in the courts with the government of Ontario.

In regard to the education portion of the Development Charges Act, if I could use an example which might illustrate this, in a new subdivision you may have a retired person who has been a part of this community for a long time moving into a new unit with an education development charge.

Mr Sutherland: I'm sorry. I didn't mean the Development Charges Act portion. I'm talking about the regular education property tax portion that the commission recommends we take off the property tax base and put either through income tax or through some of the other income tax bases, the \$3.5 billion of education.

Mr Campbell: We'd have to think that it would be positive for housing. Education is the responsibility of the entire population and it should be shared that way. Just because one person has one kind of house in a municipality, why should they pay more for education? We think it would be a fairer system.

Mr Sutherland: Okay, and an estimate for the year?

Mr Kaiser: In regard to our starts, I was at a meeting today and we had various economists and groups together. The starts forecast for 1994 that the Ontario Home Builders' Association is putting forward is 55,000, bearing in mind that today the starts for 1993 were released at 45,140.

Mr Sutherland: So you came in about 2,000 below what your estimate was, then, last year.

Mrs Elinor Caplan (Oriole): I want to thank you for an excellent brief and just focus on the prioritizing of your recommendations from your executive summary. You've mentioned tax policy as well as government regulations. I'm wondering if within your industry you could tell us whether or not you believe there are regulations which are not serving the intended purpose and are just the kind of time-wasting paper forms that you wonder whether or not anybody does anything with these things.

I'm not that familiar with your industry and I would be interested in what you have to say about some of the specific regulations and whether or not you feel there are any that could be eliminated without having an adverse impact on the public.

Mr Kaiser: We discussed, as we mentioned in our brief, the changes in the building code.

Mrs Caplan: Yes.

Mr Kaiser: Those changes, the added regulation, took place in between the major revisions which happen every five years in the building code, which we estimate tacked \$8,000 on to an average house in the province of Ontario while our industry was experiencing tough, tough times.

In regard to regulation, obviously we all share the

quest for affordable housing. In our industry, we believe that each and every Ontarian has the right to decent and affordable housing. I believe the government, as we've discussed with the minister, has the same idea, but we have to remember that in this quest for affordable housing the key to affordable housing is in the land component, and we have to ensure that we have a ready supply available of serviced land in order to meet that demand and keep land prices under control and thereby provide affordable housing.

Mrs Caplan: The cost of servicing land has risen dramatically over the last couple of decades, primarily through processing time of applications, through the planning processes at the different levels of government, is that correct?

Mr Campbell: It's a couple of factors. One is the length of time, and certainly it's an extremely long process to get through and there are a lot of delays; some are necessary and some are unnecessary. Two, the level of standard that is being required by the municipalities and by the province on the product that we put out has increased. Twenty years ago, you put a subdivision in and they'd put a ditch in a rural-type area, but now it's all got to have curbs and sidewalks and it all adds to the cost.

Mrs Caplan: What I'm hearing you say is that you accept the fact that these things have changed and that the standard has been upgraded. What you're requesting at this time is that there not be any further change in regulations that is going to add to the cost of either the development of the land or the production of the house, as the issue of regulation; and secondly, on the tax policy side, that tax policy not have an adverse impact on consumer discretionary income or spending which might deter someone from a home purchase. Those are the two basic thrusts of your presentation?

Mr Kaiser: Yes. With regard to the land component, as you mentioned, we're saying now is not the time to change the rules of the system with regard to bringing land on stream. It's not perfect in this province but it's not a time for sweeping changes of the system. We need to have some consistency and to know the rules of the game right now so we can bring land on stream.

With regard to the regulations of the actual building code, what we're saying is that enough is enough, let's get this industry back on its feet and get people back to work. If we can move the starts 10,000 above forecast in terms of a positive attitude and working together, we're effectively putting 25,000 people back to work.

Mrs Caplan: If we want to see housing starts and job creation in the construction industry in the building of homes and housing in the province, then what you need is a stable environment from the government in areas of both regulation and tax policy, which will at least maintain the status quo so that you can get on and do your part in job creation. Is that a fair statement?

Mr Kaiser: That's a fair statement. We'd like to use this as the level playing field and go from that. What we're saying is just leave it alone for now.

Mrs Caplan: Got it; thank you.

Mr Kwinter: In your summary you talk about the

critical shortage of fully serviced and draft-approved lots in some parts of the province. Is that a result of the decline in the economy and the reluctance of developers to invest money or is it because there isn't sufficient sewer and water capacity available in those areas?

Mr Kaiser: The answer to the question would be the second. There isn't the forethought or the planning ahead as to where we go next. We're very concerned that we're running into urban area boundary expansion problems. We just don't see where we're going to go from here in terms of development within the province, and yet we do see a strong demand. Those two coupled together will hence raise the cost of serviced land.

Mr Kwinter: Do you have any idea what the time lag is between expanding those facilities and being able to put lots on the market?

Mr Kaiser: The planning process right now is somewhere in the area of four to five years.

Mr Kwinter: So what we don't have today we're not going to have five years from now, and whatever we do now is going to be at least that much longer after that.

Mr Campbell: There are some lots in the system that aren't in the eight months' supply. They could come up faster than five years. It will not take five years to get more lots on the system, but to take a project now and take it through you're looking at a five-year time frame. It's one of the reasons we don't want the regulation to change, because that's going to slow it down even more.

The Chair: Thank you for your presentation.

Because the Ontario Pharmacists' Association has cancelled this afternoon, we will recess until 3:30 sharp.

The committee recessed from 1512 to 1532.

CANADIAN MENTAL HEALTH ASSOCIATION
ONTARIO DIVISION

The Chair: Our next presenter this afternoon is the Canadian Mental Health Association, Ontario Division. Representing the association are Carol Roup and Glenn Thompson. Please proceed whenever you're ready.

Mr Glenn Thompson: We're pleased to be here today. I want to say who Carol is in terms of her position in the organization. I'm the executive director at the provincial office and you'll hear a little bit about the organization when Carol describes it. She'll tell you who we are and give a context, really, for what we want to say to you by way of recommendations today.

I might just say that in many respects they're not dissimilar from what we said to you last year. The mental health field doesn't change that rapidly, unfortunately, and so our recommendations will sound familiar to those of you who were here last year. But we also want, and Carol will do this as well, to say to you what our assumptions are behind those recommendations. So if I can suggest, Mr Chairman, Carol will go ahead and then when we get to the recommendations section, I'll chime in. We're assuming we'd have about 15 minutes to speak.

The Chair: The half-hour is yours. You can use it however you want. If you'd like to leave a little bit of time at the end for questions, that would be appreciated.

Mr Thompson: We won't talk for more than 15

minutes maximum.

Ms Carol Roup: I thought it might be useful for you to know a little bit about our organization before we proceed. You have a copy of our presentation, so I'll go through it fairly swiftly and just highlight points and you can read it at your leisure.

The Canadian Mental Health Association, Ontario Division, is an incorporated, registered non-profit organization chartered in 1952. Over 3,000 volunteers are active in direct board and committee service in a network of 36 branches located in communities across Ontario. The Ontario division, that is, the provincial office, and branch services and programs are funded through provincial government grants, local United Ways and supplementary fund-raising activities.

We very much appreciate this opportunity to present our views to the standing committee on finance and economic affairs.

In our submission last year, we provided quite a lot of information, especially concerning prevalence of mental disorders in our population and the need for changes in the system and much of that information still applies.

Some of these figures were confirmed in a recent document, Putting People First, which is the Ministry of Health's policy framework for mental health reform which was released in June. I'm sure you're all familiar with it, but I thought some of those figures were at least worth reiterating: 75,000 Ontarians have a serious mental illness; 1.5 million Ontarians seek mental health care each year; 30% to 40% of homeless people have a serious mental health problem; in 1992-93, Ontario spent more than \$1.3 billion on mental health services; in that same year, approximately 80% of the mental health budget, excluding OHIP expenditures, was spent on institutional care and only 20% on community services.

Despite these expenditures, I think we all know that there are still enormous gaps in community services across this province, and we're also aware, I think, that people have to travel many miles to get service, and usually many miles away from their home communities.

As an organization, we've certainly applauded the government in its release of Putting People First and the very wide-ranging mental health reform implementation activity which is taking place within the ministry and within related agencies.

At the same time, we've certainly urged the ministry to move very rapidly on a shift towards community-based services, because we believe that this shift has a very real potential to deliver services within an individual's home community, maintaining their attachment to family and/or close friends, to their employment, to their housing and all those vitally important threads which attach all of us to our communities, physically, emotionally and financially. I think we all have a sense of that in our communities.

We know that care in the community will not always be cheaper, but for those where it is feasible and possible, and we believe there are many such individuals, the extent of their care within the community can be much broader for the same expenditure. Most importantly, in addition to sophisticated psychiatric and psychosocial

care, community-based services can include support to people with all their common human needs, such as housing, skill development, employment, social networks. While in hospital those critical community threads are easily broken and the expenditure is required principally for round-the-clock medical care.

What follows are our assumptions which are basic to our recommendations to you, and in many cases, as Glenn Thompson has said, they are similar to last year's assumptions.

The economy, we believe, will continue to experience a very gradual improvement and the long-term impact is going to be substantial.

Ontario will experience a continuing high unemployment rate of about 10% to 11%.

Stability in housing, employment, training programs and income, we believe, are fundamental to workable social programs.

While significant adjustments related to the free trade agreement will continue, Ontario, as with the rest of Canada, will now have an extended adjustment period related to free trade because of the North American free trade agreement involving Mexico, the United States and Canada.

We believe that further significant economies could be achieved through increasing efficiency and effectiveness of the public service in areas of operation, regulation and coordination of efforts with the private and the non-private sector.

I'm sure you're all aware too of the recent announcement by the federal government to give most of its attentiveness to the national deficit and we certainly support that, but we also realize that this will constrain its capacity to be helpful in health care and social service areas. It appears that they're also giving a lot of attention to job creation financing, and while this is also certainly to be applauded, many mental health clients are not ready to launch into the regular employment sector without extensive support.

Those are the assumptions on which we've based our recommendations, and I'd like to turn it over to Glenn now to deal with the recommendations.

Mr Thompson: As Carol has said, committee members, if a person who's experiencing a mental disorder doesn't have a basis for support in housing and in his training programs or social assistance, economic and housing support in particular, he doesn't have much in terms of all the other extensive and expensive programming that may be provided for him.

While all of that is very difficult to maintain in this environment, we're certainly going to be pressing hard upon all members of Parliament to say we've got to try to maintain an adequate safety net for people with mental disorders, one that does allow them to get themselves back in the workforce or, even better, to keep themselves there if they can. That's really a very important and maybe self-evident recommendation, but sometimes the focus in the mental health system gets steered entirely to those services that are specifically psychiatric. We'd like to see the needs of people and do see them much more

broadly set than that. As a second recommendation, we want to make a point about accountability systems. While we think very much that they need improvement, both in the institutional and the community sector, especially in the community sector I would say, we're very concerned that those who invent accountability systems may invent ones that are so highly sophisticated and demanding of time and money that they won't well apply to the size of the community sector.

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It's a caution, I think, that while we need to have very thoughtful kinds of accountability systems, they also need to be geared to the size of a system that we have in the community and to its state of development, as many of you know. I know at least some of the members here are active in community service work. You're certainly aware that agencies need a lot of developmental assistance in their support services. So to apply accountability systems the same as one might apply to a very sophisticated hospital doesn't really pay off or won't pay off, I think.

In the area of volunteers, we're a volunteer organization, as you know, and very much have the belief that volunteerism can be and should be expanded dramatically in the province. There are all sorts of people like me who've retired at least once and who can be recruited to do other things, often in a volunteer capacity entirely. Many bring all sorts of skills to our various workplaces and we should be harnessing that resource much more than we are at the moment.

It's anything but free as a resource. My experience, especially in correctional services with good volunteer programs, was that they were anything but free but they multiply the time that can be spent with individuals absolutely dramatically. So the payoff is in the delivery of much more time to individuals who need it.

We think as well that there can be, and in some cases is but we need to improve much, the collaboration between industry and labour and non-profit organizations in the whole mental illness prevention and promotion area. Workplaces, in my experience, especially around the Labour ministry where I saw it up close, often don't pay a lot of attention to that or they sort of relegate it to employee assistance programs, which are really important but don't necessarily see the central role of both unions and management in the direct confrontation of issues that are preventive and promotive in terms of mental health.

We also think that there needs to be a significant effort made with youngsters at a primary prevention level to get at difficulties before children reach the teenage stage, or a much more advanced stage than the small youngsters. Then the problems usually have many different overlays on them, frequently, in my experience, delinquent overlays, and then you have several problems to solve.

There's much that can be done and organizations are offering that kind of advice in a significant way that we're participating with at the moment to get at early and primary prevention and provide assistance to young parents long before they get into difficulty with their youngsters. Again, I think some of that assistance could be provided through volunteer help.

I guess stress in the workplace seems to be something that people talk about as though it's increasing dramatically these days. Whether or not it is, there seems to be a lot of it around and all of the recession complications have certainly increased it for many people.

There's much that could be done, we think, between industry and unions and government and the non-profit sector to work with workers and managers in the workplace to help reduce that kind of stress. We do know something about that, we think, and some of our branches do significant work with workplace programs, but much more could be done there.

I think of the WCB, for example, as an organization that might well take a major kind of initiative in a promotive sort of way, as opposed to simply waiting for the insurance bill to come in for the stress-related illness. There's much that could be done there and we're advocating that to them.

We certainly think, and this was mentioned earlier, that a simplification of the application of government regulations is achievable and desperately important, both for industry and government itself and for the non-profit sector, but maybe especially for the non-profit sector. Because of the size and scale of our organizations, people are usually feeling as though they're sitting under a deluge of governmental material coming to them, both in the form of reports that we subscribe to a great deal, like Putting People First and long-term care documents, but also in terms of regulations that relate to health and safety and pay equity and employment equity and so on.

If you're a small branch of the Canadian Mental Health Association with five or six workers, it is really a tall order to absorb all of that. We don't resist the fact that these regulations are needed, but some method to simplify their application and people's education about them would certainly keep the time of staff who presently are applying themselves to those things directed to the services that the organization is there to deliver.

We also want to recommend to you support for the consolidation of management in the mental health system. As you know, Putting People First and the organizational changes announced by the Ministry of Health last Friday put the community mental health and the institution sectors together, but we believe strongly that there should be a delegation of those responsibilities now as much as possible out to regional and local structures.

Just finishing up, we're anxious to see the provincial deficit continue to be worked on in a strenuous way, but we do think that even as that's done, there is an opportunity to use the funds much better in a reframing or re-engineering, I guess people would call it these days, of the mental health care system. The outlines for that are in Putting People First, but there's much to be done in the implementation process there.

I should stop at that point and allow some questions.

Mr Sutherland: I just have two quick questions. One issue that stands in the way of going to more community services and integration, of course, is that some communities, out of a lack of knowledge about mental illness, are reluctant to have community facilities in their neighbour-

hoods. There's certainly a concern about that and we unfortunately have that type of controversy going on near my area right now. I'm just wondering if you could comment a bit on that.

More specifically, in your presentation you talked about some of your concerns about funding. If there's one specific thing you would ask the government to change to support mental health services in terms of a funding priority or whatever for the upcoming year, what specifically would that be?

Mr Thompson: I think we'd say there needs to be an amount of money, not a large amount, to prime the pump. To change from institutional care to community care is tough if neither side has any money to facilitate that change. It will happen anyway, but it will happen more slowly and there will be tremendous turf battles over who is funding this change process, which need not necessarily be as acute.

Mrs Haslam: Along the same idea, there were a couple of points on page 5, and I wondered if you might give some examples. You said that "much could be done collaboratively between industry, labour, non-profit organizations and government to develop and implement both mental health illness prevention...."

I wonder if you could give an example of that, and also, another two stars down, collaborative effort at all levels to educate workers—this is the finance and economics committee—and how you felt the money could be spent in those types of programs when we're looking at very tight fiscal constraints.

I have some concerns around page 6 when you talk about, "believe that government must continue to address the reduction of our provincial deficit as one of the highest priorities," but then you go on, on page 7, to say that you're concerned about the decreases in funding within the institutional sector and being sure that the money's in place within the community.

I understand that, but it's a difficult balance. You're caught in that balance and I'm finding that your solutions don't have solutions. You have identified the problem. What we were saying is, you can't on the one hand say, "Control the deficit," and on the other hand say, "Increase our monetary position." I wonder if you would elaborate briefly on those comments and maybe give an example of the things I've asked you about on page 5.

1550

Mr Thompson: Let me speak to the last point first. What we're seeing and people in the Ministry of Health are seeing in large measure is that in the general hospital psychiatric units, and in chronic care units as well, I understand, there's a rapid evaporation of funds as those general hospitals are experiencing constraints. They're evaporating often down the hall to surgery or to some other element in the hospital.

From the mental health field's point of view, we're concerned to have that \$1.3-billion envelope not have several leaks in it. We're not looking to have more money in it, but rather to have that money contained as much as possible and reallocated into the community, where we think, as we said earlier, in many cases it can

have a higher payoff because the money can stretch further in those community programs. That's one element of speaking to your question.

In terms of examples of what one might do in the workplace, I look at the gigantic expenditures in the Workers' Compensation Board system and think, isn't it a pity that we're waiting until those things have happened, as opposed to doing more to promote wellness in the workplace as well as everywhere else? That certainly relates to stress in the workplace and all of those other things. As any of us knows, workplaces can be organized in ways that are stress-enhancing or stress-reducing, including the Legislature, I don't doubt.

Mrs Haslam: Boy, you should be here some days.

Mr Thompson: It wouldn't take a lot to do some of that work.

Mrs Haslam: But isn't there some of that work being done already within the workplace?

Mr Thompson: Yes, certainly there is, but there are many workplaces across the province that are doing anything but stress reduction, and those employers are paying for that in spades in terms of productivity.

Mrs Caplan: Four minutes is not a lot of time to get into anything in depth, really. I want to thank the Canadian Mental Health Association for its presentation. I was very interested in the discussion with Ms Haslam over the notion of an envelope for mental health services. That does not exist today, is that correct?

Mr Thompson: It exists only for those things that are the provincial psychiatric hospitals and the community mental health programs and addiction programs.

Mrs Caplan: So there's no guarantee that the psychiatric services provided in general hospitals will be protected or are part of an overall mental health envelope.

Mr Thompson: Certainly, while I was at the ministry making recommendations to them, I was saying, "Yes, you should be protecting that," but as recently as this morning, I was being given an example of a hospital where there's quite a drift of money away.

Mrs Caplan: The other thing you said that I very much agree with you, as you know from things I've said before—I'm not going to pretend I don't have a history on mental health issues—was that you believe you could see significant reallocation within an existing envelope if all those dollars could be identified so that you could better serve the needs of the public and individuals in need of mental health services.

Mr Thompson: No question about that, I think. I met many people in my six-month sojourn at the Ministry of Health looking at these problems in hospitals who the staff didn't feel needed to be there. They were saying, "If I could get a program in the community for this person, he could be out of here."

I remember one of the physicians at Penetang's hospital saying to me: "I don't need any of the people on this ward to come here. If I could put my service in the community, it would keep the person anchored there better." They were providing, I thought, a very good service, but it was a 12-day turnaround. He was saying:

"We need the people here for three to six months if we're going to do something intensive, and by that time they've lost touch with the community. Preferably, we'd handle them in their own community." That's difficult, the more wide-ranging the area is, but they wanted to take a crack at that. I hope they will.

Mrs Caplan: The network that the Graham report envisioned—Whitby was actually supposed to be the first example; the Whitby redevelopment with the local hospitals and the community—saw a structure that would permit that reallocation to take place so that you were not talking about more or additional dollars, but about better use of existing resources. Do you know any place in the province where you'd have that kind of structure in place today that would allow for that kind of reallocation or a structure that could be a model for other communities?

Ms Roup: There's no question that each region in the province will develop its own kind of structure, that because of geography and just in terms of the kinds of service and the service spread, the expectation is that different kinds of models will arise.

Mrs Caplan: But there's no structure in place in the province today to allow for that kind of reallocation that you know of?

Ms Roup: Not as a model. I guess Whitby is one and I think having the district health councils in place lends itself to an authority of some sort or a coordinated structure of some sort. In most communities it could move quite quickly, if that was what was needed.

Mrs Caplan: Have the mental health subcommittees of the DHCs been able to even gather in what the existing resources are that are available in the community hospitals? Do they know? Does anybody know?

Mr Jackson: They're downsizing them.

Ms Roup: We don't have data of any sort that are reliable; not in terms of who's being served at any given time and what services they're utilizing. That is probably the most serious deficit in the province, because without having those data, how do you plan? DHCs are in a tremendous bind. We support their key leadership role in all this, but they need a lot of support to play it effectively, data being just key.

Mrs Caplan: I agree.

Mr Jackson: I'd like to build on Ms Caplan's excellent questions. I know that in Halton region, our DHC has looked at mental health services and it's resulted in downsizing because of the pressures on hospitals. These are generally the least controversial programs in the mind's eye of the public and that's grossly unfair.

Adolescent suicide is up dramatically in this province. It's one of the most unspoken statistics that we should be dealing with and we're not. Young men and a lot of young women in my riding are having to go to Whitby from Burlington because we've been shutting down our adolescent psychiatric beds. I've seen evidence of DHCs dealing with it, but not dealing with it well. I think you're being far too kind to suggest they need additional resources. The future is an envelope and we're not well positioned in mental health services.

Where I want to move you to in terms of a response is that I see increased pressures. It's different if your cohort, your client, is remaining sort of a constant. Then Glenn's comments about constant dollars he could live with; stop the haemorrhaging and we'll deal with our population, thank you. But recently, the new Minister of Justice announced that in response to the reductions in his budget for the incarceration of violent criminals, psychiatric-based criminals—he's indicated now on two occasions that these would be referred to the Ontario health system. This is what he was indicating.

When you consider that a disproportionate number of these convicts will be released into the community in Ontario, they become in a sense part of your response that's required of you. This is a large cohort. I want to ask you first if you're tracking or have any information on this now that we've had the first major policy statement from the federal government on this one aspect of justice.

The other issue, since I may run out of time, has to do with the increased incidence of Alzheimer patients. I have a disproportionate number of Alzheimer patients in my community who are hustled out of their hospital beds and put in psychiatric institutions. I'm talking about psychiatric hospitals. They're put in chemical straitjackets and they die, quite frankly and, I have to say publicly, prematurely in that environment. That's no slight against our psychiatric hospitals; it's just not the appropriate place for treatment for an Alzheimer patient. We've been tracking it in our community of Halton and I'm very upset by it because this is a mental health matter and long-term care reform is not dealing with it, but it's a cohort that's growing in terms of your responsibility.

1600

So when I see your report I think you're being far too kind in terms of the increased demands on mental health services when they are dropping so disproportionately. That's not what we're seeing a lot of before this committee. We're seeing a need for additional resources without the expressed additional demand. You are one of the few groups that have come forward where I see that growing.

Can you please share with us some of your tracking on these two or others that you're aware of? I've mentioned three. They're areas of concern. I know they're being quantified. How do we deal with it? We're running into these people in our streets and that's not fair to them nor to a society that has a lot more capacity for compassion.

Mr Thompson: Let me start on that, anyway. There is a significant forensic service study under way in the Ministry of Health's mental health care area, and that I think is liable to help to move this forward. But to be specific, I think that we should be using some of the very experienced psychiatric resources that we have in the provincial psychiatric hospitals, as some of the patient group are moved out to the community, to take on increased work with some of the people that you've just described who come out of the forensic system.

If we were to not worry about what institutions were called, Correctional Services probably has 1,000 people in institutions today who need the services of those staff. Whatever building you put them in, whatever you call it,

they're certainly not getting those services today, through no fault of people in Correctional Services. They're not geared up to provide intensive psychiatric care.

Mr Jackson: These are in some instances dangerous, violent offenders.

Mr Thompson: Some are; not all, by any means. But even if they are, they still need that kind of environment of support and assistance. Increasingly, over the years the psychiatric hospitals have not wanted to deal with that clientele. I know while I was a Correctional Services administrator I could usually count on the fact that if one of my physicians referred persons to a psychiatric hospital who was an acting-out kind of personality, they would be back before the sun set, with the hospital saying, "We just can't handle this kind of person." That seems still to be the case.

Wherever they're going to be handled, they need to be surrounded by people who know something about caring for that kind of individual, and as the mental health system changes there is going to be a substantial number of those 8,000 staff who are in the provincial psychiatric hospitals who will either move into the community or could move to deal with that clientele.

The Chair: Thank you for your presentation.

ONTARIO GOOD ROADS ASSOCIATION

The Chair: The next presentation will be made by the Ontario Good Roads Association, and I see there's a long list of people who will be coming forward to assist in this presentation. I had a peek at your written remarks so I know that you're going to introduce everyone. That's important for the members of the committee and Hansard, so that whenever anyone makes a comment we make sure we attribute the right name to the comment.

Mr Vik Silgailis: Good afternoon. We are representing the Ontario Good Roads Association and I would like to introduce our delegation. I'm Vik Silgailis, president of OGRA and commissioner of works for the regional municipality of Durham. With me are: Len Rach, first vice-president of OGRA and director of engineering with Metropolitan Toronto's transportation department; Gerry Lalonde, second vice-president, councillor of the township of Cumberland; Ross Hastings, board member and mayor of the township of Tiny; and Sheila Richardson, our executive director.

As you may know, the Ontario Good Roads Association is a municipal association representing the road and transportation concerns of over 750 municipalities across Ontario. Our members include Metro Toronto as well as small rural municipalities. Our board is comprised of elected representatives and municipal staff, including engineers, road operations and administrative personnel.

We are here this afternoon to offer our comments on issues that we wish to see addressed in this year's provincial budget. At the outset, I want to say that we are aware of the continuing and indeed mounting financial pressure with which you must contend as you contemplate the coming budget. Municipalities are budgeting with shrinking resources and increasing demands on those resources.

OGRA welcomed the federal government's initiative

concerning infrastructure renewal. We believe that these projects will assist in the economic renewal of our communities and result in desperately needed projects going ahead. OGRA believes that it is critical that the projects be aimed at the renewal of our infrastructure. Roads, bridges and sewer and water projects should be first priorities for funding. These are all labour-intensive projects and will create many jobs. As well, the results of the expenditure of these public funds will be easily identifiable to the taxpayers and the public investment in our infrastructure will be protected. The residents of this province have, out of necessity, watched as public infrastructure maintenance and upgrading has fallen further and further behind schedule. Delayed maintenance work costs all of us. It results in additional costs as the work required increases. It reduces the life expectancy of our infrastructure and raises issues concerning safety and liability. There are also related costs due to the impact of deteriorating roads and bridges on our commerce and tourism activities. This program will allow us to deal with this neglect.

OGRA believes that it is equally important, however, that the provincial government not increase its deficit to participate in the program. Nor are we recommending an increase in the tax revenue. We recommend that the program be funded from existing revenue sources. We realize that this will necessitate a reordering of priorities and a shifting of resources among programs. Hard choices will only get harder, and we do not make these recommendations lightly or easily.

OGRA is pleased to have been involved with meetings to discuss the guidelines for the infrastructure program. We have submitted comments to ministry staff outlining our concerns on certain administrative aspects of the program and we have requested that these issues be dealt with as soon as possible. We also need assurance that existing grants to municipalities will not be cut as a result of participation in this tripartite program. In order to plan and implement road programs, municipal road funding cannot be reduced as a result of this program.

At this point I would reiterate a long-held position of our association regarding the need for a portion of fuel tax revenues to be dedicated to road needs. We recognize that dedicated taxes reduce availability of funds for those sectors that do not have an obvious source of revenue, but we believe that road needs are the legitimate recipient of these funds.

Roads continue to be underfunded. There has been a significant change from the 1955 to 1965 period, when transportation comprised between 26% and 33% of the total provincial budget, to 1992, when it represented only 4.8%. At the same time, the municipal road system is expanding. The total municipal road system has grown 4,000 kilometres between 1985 and 1992. The total system now measures 136,510 kilometres. From 1991 to 1992, almost 500 kilometres of new paved roads were added to the system and during the same time period just over 1,000 kilometres of gravel roads were overlaid in rural municipalities.

I want to deal briefly with an issue raised in the report of the Fair Tax Commission concerning infrastructure

funding. OGRA believes that the financing of infrastructure projects that are required as a result of specific growth is a legitimate use of development charges. Development charges are calculated to recover the capital costs of providing infrastructure for specific developments. Beyond that, operating and maintenance costs are done by the property tax. We believe that this is an equitable and necessary manner of funding new growth.

I also want to restate an issue that is of critical importance to municipalities, and that is the need for more predictability in both revenues and programs. The downloading must stop. Municipalities recognize the need to govern efficiently and manage resources prudently and we have taken many steps to do so. What we need now is cooperation and agreement from the government of Ontario. Provincial legislation, regulations and programs established by the province are often delegated to municipalities for administration and too often become their financial responsibility as well.

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A related issue is the need for municipalities to know early on the financial resources that will be transferred. Budgeting in the absence of both program requirements and financial resources handicaps municipalities, strains their credibility and hurts the provincial-municipal partnership.

I want to mention, for the members' information, a program that our association is involved with. OGRA, in association with MTO, the Municipal Engineers Association and the Association of Ontario Road Superintendents, has initiated a Cooperation Pays campaign for the public works departments across the province. The program focuses on increased cooperation because we believe that there are significant opportunities for improved efficiency available to transportation agencies through shared resources and joint planning. The program has identified several general areas where opportunities for increased cooperation might exist. They include the sharing of equipment, facilities, inventories and services as well as group purchasing and coordinated functions, such as snowplowing and staff training. The program provides education to alert municipal councils and staff to possible savings, facilitators to assist in implementing identified cooperative ventures and a tool kit that provides forms and information to assist in cooperative efforts. The program was initiated in the summer of 1993 and will run until the end of 1995.

We are also working with the Ministry of Transportation to revise the current methods by which MTO assists municipalities in funding transportation services. The objective of the review is to develop a simpler funding arrangement to ensure equality, efficiency and effectiveness while at the same time providing municipalities with more autonomy in selecting projects, materials and methods. A draft report is now under review by MTO and is expected to be available to municipalities at the end of January 1994. OGRA, on behalf of MTO, will coordinate municipal input through a series of meetings across the province. MTO has advised that it intends to implement changes arising from this exercise in January 1995. We have already advised MTO that the review of

the funding formula must not be used as a means of reducing the provincial transportation transfers to municipalities. It should be used strictly to develop more equitable funding arrangements between MTO and municipalities.

I want to conclude by stating that OGRA welcomes the opportunity to attend your deliberations. We know your task is not an easy one and we have attempted to offer some suggestions for your consideration. We have not come with simply a plea for funds but with a request for the tools to do our job. Municipalities have, I believe, demonstrated to the taxpayers that they are willing to respond to shifting priorities and shrinking funds. We ask for your assistance.

I hope our comments will be useful and your deliberations fruitful. Thank you for your attention.

Mr Kwinter: I was interested in your comments in support of the announcement that was concluded yesterday with the infrastructure program. I'm just curious to know how you envision this is going to work. You suggest that we can't increase the deficit, we can't increase the taxes, so there's got to be a reallocation of revenues.

My concern is that a lot of these revenues are going to be allocations that have been made under the capital works program of every level, whether it be federal, provincial or municipal, and just shifted over so that each participant can lever the other two for an equal amount of money.

So you'll have the province taking money out of capital funds that it's already got and saying, "Okay, this is part of the infrastructure program." The municipalities are going to have to take money out of their capital projects to do it. The only other choices they have are to raise taxes, increase their deficit, which is very difficult for them, or reallocate other resources.

How do you see this working at any level but particularly at your level, at the municipal level? Where are you going to get the money to participate in this program?

Mr Silgailis: It is a very good question and a difficult question to answer and this is something we will be struggling with, of course. However, we felt that we needed some injection and this is the injection that's coming, two thirds. We will do our damndest to find our third.

In my particular municipality we're looking at the water and sewer projects primarily. In the general tax levy we've been in a zero world for I don't know how many years and primarily bailing out social services. Our only hope is to go to sewer and water, and we are looking at debenturing to come up with our third because there are so many projects that are on the shelf which haven't gone anywhere and we're in a critical situation. We have plants which are hardly meeting compliance etc which have to be expanded.

This was quite a strong debate within our board meeting and everybody was supportive of this program but very concerned that the deficit would increase. The brief basically suggests a shifting of priorities. Maybe some of my colleagues may want to comment but I guess

we're looking at possibly shifting from some of the other soft services to the hard services because the hard services have taken such a difficult kick in the pants over the years. When our share was 33% and now it's down to 4.8%, there has been some major shift somewhere.

Gerry, do you want to comment?

Mr Gerry Lalonde: Thank you, Vik. Like you mentioned in your deliberations, you've been downloading on us for a couple of years now, like the social services, and you have increased our waste management requirements. This was all initiated by the provincial government and then at one time it was dropped in our laps and that's where, as far as we're concerned at the municipal level, there should be a review by the provincial government to relook at how much money is being spent on those social services or some adjustment should be made in the social services programs because there have been all kinds of changes in the infrastructure programs by downloading, giving more and more responsibility to be paid by the municipalities.

There is something wrong, especially when you go from 25% to 30% to 4.8% in 20 years and we still have to rely on our road structures more and more in the transportation end of it. An especially good example is when you look at the GM and Ford plants in Canada using the road systems versus the rail systems and yet we're not putting as much money into our road systems to maintain them.

I think personally, as a politician at the municipal level, we have to restructure our social services.

Mr Silgailis: Ross, the mayor of Tiny township, may want to comment.

Mr Ross Hastings: Thank you, Vik. I appreciate the opportunity. I have to agree with the social services issue. Last year I was the warden of Simcoe county and in 1993 we were \$1 million over our budget in county dollars and that's hurting us. In the last two years we have been unable to use all the MTO subsidy.

I definitely feel that there have to be some changes. A graph that came out in one of the local papers said 44% of the recipients were kids under 21. I think our system is going the wrong way, and hopefully we could get more money into our roads, create more jobs and get this social services budget down. It's killing everyone and it's a very great concern I know in Simcoe county in my own municipality. So I think that's one major area where maybe some money could be shifted and I think we all realize there's only so much in the pot and it's got to go around.

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Mr Carr: How far along are you with discussions with the government of how much you're going to get? Where are you at with it?

Mr Silgailis: The announcement came this morning. I have received the numbers for our municipality.

Mr Carr: What are they; do you know?

Mr Silgailis: For the regional municipality of Durham, it's \$23 million; that's a two thirds, and then we would have to come up with \$11 million.

Mr Carr: Is it too soon to tell how many jobs are going to be created and how much municipalities will—

Mr Silgailis: It depends on the project, of course, but the rule of thumb that we use is 15 person-years of labour for \$1 million worth of expenditure.

Mr Carr: How much are you getting for roads, total?

Mr Silgailis: For the regional municipality of Durham it was \$35 million. I don't know how much there will be in other municipalities.

Mr Carr: Thirty-five times the 15 gives you the number of man-years.

Mr Silgailis: Yes.

Mr Carr: I appreciate you're saying taking it out of existing revenues. What do you think is going to happen, and I guess it's difficult because different municipalities are at different levels of cutting back and so on, but what is your feeling percentagewise? What can people look for in terms of increases in municipal taxes as a result of this program?

Mr Silgailis: Maybe my political confrères can respond.

Mr Lalonde: For us in Cumberland township, we had our budget deliberation last Thursday evening and we came up with a zero increase but we had to do an awful lot of cutting, also, of services.

Mr Carr: But that didn't include this announcement; right? So now you will have an increase?

Mr Lalonde: We are fortunate that we do not have any debts at all, and we're one of the very few municipalities in the province of Ontario. We have the resources in hand to be able to provide our share, whatever the amount of money we will receive. We're hoping to get some for the north-south link, the project we've been looking over the last four or five years. We've been waiting and we're prepared to proceed. So we have the money in hand, but we're, like I say, very, very fortunate.

Mr Carr: Yes, because a lot of municipalities don't. I think Toronto's looking at a 1% increase and so on. Also, you mentioned that you were looking at getting into debt. As you know, we have a debt crisis in this province. Each of us owes about \$25,000 for every man, woman and child, if you combine the federal and provincial debt. The federal government's broke; you can say whose fault it was, the Liberals, Conservatives, it doesn't matter. The same provincially, we're in debt. It can be the NDP, Liberals, Conservatives; it doesn't matter, we've got a debt problem.

You're now asking us to allow municipalities to go further in debt in some of the bills that have been put forward allowing the municipalities to borrow, all for worthwhile jobs. I can tell you, the ratepayers in my area say, "We've got two levels of government broke; we do not want a third level."

What do you say to people who are saying, like yourself, "Just allow us to borrow more and to go into debt," at a time when other governments at other levels have just made an absolute disaster out of it?

Mr Lalonde: I think we understand what you're saying and this is why our recommendation is to look

into essential services with this program. Again, rehashing what I said earlier, we should look into the social services and try to do some adjustment because I think in the last few years there has been more and more money sent toward the social services. What are we getting back? Are we improving things there? We've been getting less and less money from the provincial level for the road infrastructure and we're trying to keep it up and we've been going to our taxpayers. Even the social services, you've been pawning some of those responsibilities on us lately.

Mr Carr: I know it's outside of the mandate, but being a municipal politician, just because you have mentioned that issue, what's happened in some provinces, for example, Alberta's tightened up the social assistance and people have just moved to BC, very simple. We have transferred it. Do you think Ontario should do the same thing as Alberta's done?

Mr Lalonde: I'm sorry, I don't know the politics outside of the province so I'm not prepared to answer that one.

Mr Sutherland: I'd like to just make a few general comments. First of all, I think we'll be able to help municipalities predict what they're getting from us when we're able to predict our own revenues. As you know, in the last four years, the revenues clearly have been anything but certain. That needs to come into effect.

Mr Carr raised the point about having to go into debt to carry out some of the infrastructure programs, but debenturing for capital projects is something municipalities have done in this province for many years, so it's not something new, debenturing for capital.

Just the other comment too, a couple of you have mentioned about social services. I do want to remind you that there was a deal between AMO and the province to deal with a substantial amount of social services, general welfare, the disentanglement deal that had been negotiated and unfortunately was turned down by municipalities despite the fact that their representatives had negotiated on that behalf. So efforts have been made to try and take that off the property base.

My question is, in terms of more specifics about roads and bridges, from your sense—I know I have a couple of townships in my riding that have a significant number of older bridges that were built in the 1935-40 period that now need replacement. I'm just wondering whether you have any advice to the ministry as to whether that's a consistent problem across the province, and in terms of looking at how the ministry is funding, whether maybe the overall amount is the same but more should be allocated to do bridge replacement rather than specifically to roads. I was wondering if any of you had any specific comments on that.

Mr Silgailis: As I pointed out, the Ministry of Transportation is reviewing its allocation formula and approach and we will be working with it. As far as whether more should go to bridges or roads, our position's been more in regard to giving more autonomy to the municipality to make the decisions. We certainly are very interested in receiving adequate funding, but as far as the decision-making process, whether it should go to

bridge replacement or road replacement, that should be left at the local level.

Mr Sutherland: I understand that the way the infrastructure program is operating in Ontario, it is municipally driven in terms of establishing what the priorities are against broad criteria.

Mr Silgailis: That's correct. Money has been allotted now. There will be a screening process for the projects, but it'll be municipally driven, yes.

The Chair: Thank you for your presentation.

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ONTARIO NATURAL GAS ASSOCIATION

Mr Paul Pinnington: I am Paul Pinnington, the president of the Ontario Natural Gas Association. Accompanying me is Mr Gary Lowes, the chair of the association's finance committee. He is also the senior director, management information systems and corporate development, for Centra Gas Ontario. On my right is Mr Bernard Jones, president of Blue Apple Consulting, and a resource person to the association.

We are pleased to be with you today, and thank you for including the association in these important proceedings. This is the eighth consecutive time that we have appeared before this committee, and we respect and appreciate this opportunity.

On behalf of the members of the association we have prepared a discussion draft entitled Economic Recovery and Income Rebuilding, Not More Taxes or Tax Reform. This text has been distributed to members of the committee. Mr Jones has prepared an overview of the paper which he will take us through. I propose that my colleagues and I would respond to questions at the conclusion of Mr Jones's presentation.

The paper, along with a copy of Mr Jones's overheads, have been provided to the clerk and the representative of Hansard. Additional copies of the paper are available to interested parties. With your permission, Mr Chairman, I'd ask Mr Jones to proceed.

The Chair: There is one problem, I must say. If you are required to speak, Mr Jones, it makes it very difficult because Hansard will not be able to pick you up. So we're going to get you a mike.

Mr Bernard Jones: Thank you. In past submissions to the standing committee, the Ontario Natural Gas Association has focused on policies to strengthen the Ontario economy, and we've dealt with issues like economic growth, budget deficits, that kind of thing, and looked at issues, including productivity and budget deficits.

This time, there seems to be a great interest in the level of taxes in the economy and the impact that possible tax changes could have on economic growth. As you know, the federal Minister of Finance is visiting various regions of the country and discussing with participants in conferences what the options are for fiscal changes, including taxation. So it seems to be on everybody's mind, and we thought it would be interesting and useful to put forward some of our views on taxation.

We picked this title for our document, Economic

Recovery and Income Rebuilding, Not More Taxes or Tax Reform, simply to focus on the fact that we feel that what the economy needs more than anything is improved consumer and business confidence and longer-term stability, not more taxes or tax changes.

In the work that we did for the Fair Tax Commission and put before it, we identified what we felt were some useful principles for guiding fairness in distributing the cost of government.

The first principle was improved economic performance and competitiveness. The second was that there should be no increase in the overall tax burden. The third was that there should be no increase in the number of taxes. Fourth, there should be a focus on increasing the visibility of the costs of the services provided to the public and on user-pay. Fifth, there should be a priority to horizontal equity over increased vertical equity in taxation. Sixth, there should be vertical equity reflecting the true costs of services and benefits and, seventh, any major new taxation initiatives should be joint federal-provincial actions. We can discuss obviously any of those areas as we move along.

We took a look at the Fair Tax Commission report. Our preliminary assessment is that despite the fact that the Fair Tax Commission has recognized the importance of the economy and reviewed the issues that taxation raises for economic performance, in reality, economic efficiency and concerns for the economy take a back seat to tax reform per se, to tax progressivity. In terms of tax neutrality, if the proposals of the tax commission were implemented, it would amount to a major increase in the overall tax burden. In terms of the number of taxes, the implementation of the proposal would amount to a proliferation in taxes and fees.

In terms of user-pay, the focus is too narrow because it's focused principally on environmental fees and not really on the broader question of how one uses the user-pay approach to improve the visibility and awareness of costs to users of government services, not an easy issue but nevertheless one that has to be dealt with.

The question of equity, vertical equity particularly: The thing that worries us is that the past achievements that have been achieved in income redistribution are not really addressed in the report. The report seems to take the position that we're starting from scratch and that we have to start building progressivity into the system, without actually documenting the extent of redistribution that occurs at the present time.

In the document that we gave you and in one that we put before the tax commission, we used Statistics Canada data to show that there's an extensive amount of income redistribution occurring when you look at income tax and transfer payments combined. We've just used one number in the document you have. It shows, for example, that if you take the richest income group and the poorest income group, before tax, the ratio of the rich to the poor is 19 to 1. After tax, it's 5 to 1. Now, you may argue that 5 to 1 is still too much of a disparity. The point is, the system does work. The question is, does it work well enough?

As far as federal-provincial coordination is concerned, it's also worrying to us that there's nothing original in

terms of how the federal and provincial governments can better coordinate the development of taxation policies. Clearly, as the report recognizes, the federal government has a major influence on the ability of Ontario to implement reforms. So our assessment was that the Fair Tax Commission report really did not meet the kind of test that we would apply. Now, perhaps there are others who would apply different tests.

Turning to the economy, we believe that the number one priority must be global competitiveness. It's true that the economy is undergoing economic recovery, and we hope it will continue. In fact, we believe it will continue. But at the moment, if you look in global terms, it's primarily a North American recovery. Japan and Europe are still very much in recession. In fact, conditions are worsening there. We can expect that from a cost point of view and in terms of trying to deal with their unemployment problems, they will try to become more competitive in the North American economy, which means that Canada is going to have to be even more awake than in the past in the NAFTA context.

Despite the large tax increases imposed during the past decade—and if you look at those tax increases, they really are quite staggering, both in absolute number and in the billions of dollars added to government revenues—as you well know, public debt, borrowing and deficits are major obstacles to economic recovery. It's our feeling, certainly the feeling of the members of the association, that the tax burden should not go higher.

We wanted to make a note here as well that in the Fair Tax Commission report there are several statements to the effect, either by the commission or quoting hearing participants, that the purpose of the tax system is to eliminate poverty and to deal with the problem of low incomes. It's our position that obviously these problems have to be dealt with, but it's not the job of the tax system to do it, that the solution to those problems lies with economic growth, not simply with the redistribution of income.

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Looking at tax progressivity, which is the principal focus of the work certainly of the tax commission and many advocates of tax reform, the OECD countries, and this includes Canada, during the 1980s implemented a wide range of reforms. Every single one of those reform exercises that you investigated had fairness as a key priority, a key objective. We don't believe that tax equity as such took a back seat to other aspects of reform during this period.

As I mentioned before, we feel that the recent work on tax reform has ignored the fact that income redistribution is already accomplished to a considerable degree in the current tax transfer system. Unless we come to understand what that level of support is, it's very difficult to decide whether or not you need more or less.

The third point is that the tax commission evidence is largely rhetorical and there's a lot of supposition in it. I've read the thing closely, I know a fair amount about taxes and I think if you—several of the commission members voiced concern along these lines too. There are serious problems with the research. Just to give you some

examples: You look at various percentiles of the income distribution and it's assumed that the people within those percentiles are all homogeneous, and they're clearly not. If you don't understand who occupies the various percentile income groups, your conclusions on progressivity will be wrong.

There are lots of examples where—for example, subjectivity. A lot of the conclusions seem to be drawn out of subjective analysis rather than hard facts. Nevertheless, it is a lengthy document and it's easy to criticize, but we think these are two fairly serious weaknesses of that document.

The tax commission recognizes that cost-effective tax administration and compliance is very important. Nevertheless, it recommends more taxes: a national wealth tax, new payroll tax calculations, a new carbon tax, new vehicle registration systems, a new environmental tax, new and intricate user fees, new environmental excise taxes, restructured property tax assessments and so on. All of those changes to us imply a real risk of a major increase in the administration and enforcement in client costs of the system. These are costs to government and to people who have to collect, remit and file their tax returns.

Two examples, incidentally, of tax-related systems that are in need of major administrative improvement right now: the GST, where the collection is way behind, and the OHIP registration system. The Ontario Natural Gas Association, as you know, represents energy providers and consumers of natural gas and is interested in the energy recommendations of the Fair Tax Commission. The Fair Tax Commission proposes harmonizing the goods and services tax and the provincial retail sales tax. It also proposes the carbon tax, a tax on ozone-depleting substances and a broadening of the tax for fuel conservation.

Our reactions to those proposals are, first of all, as we have suggested almost since we've been making submissions to the standing committee and certainly since the GST has been in effect, we have recommended harmonizing the two taxes, but we feel that if it is harmonized, then residential energy should be exempt from the tax as food is, that it is as much a necessity. We feel that Ontario, from the point of view of economic competitiveness and other reasons, should avoid a provincial carbon tax.

I might put two "ifs" in. If it could be shown that global warming is really a problem and if it could be shown that the carbon tax was the correct instrument to apply to solve the problem, then it's our feeling that such a tax would have to be applied at least on the North American level to make sense for this province and for Canada to participate, that it's very dangerous to move on the provincial level.

As far as the tax on ozone-depleting substances, you will have noted in the report that the commission itself recognizes there are protocols that indicate these substances are going to be regulated out of use over the next few years. So it would seem a little bit incongruous and inefficient to impose a tax at a time when you're going to regulate the problem away.

The last point I'd like to make is in terms of the overall approach on energy. There are tax expenditures, as you know, and our feeling is that it's useful to continue to support alternative fuel vehicles such as natural gas vehicles. They are highly energy-efficient and have low emissions. So there are other ways of trying to deal with environmental problems.

Very quickly, as far as federal-provincial taxation goes, we view this obviously as a pretty serious area of concern for the government of Ontario and for the standing committee. Most of the proposals made by the Fair Tax Commission require federal agreement to implement. It is our feeling that there are more important federal-provincial priorities that should be addressed: One is a national debt-reduction strategy—we need something along those lines; we need elimination of costly duplication of federal-provincial services and programs; we need a more equitable fiscal arrangement—that is, sharing the responsibilities and the resources to meet those responsibilities; and we need to restore confidence in public administration.

We had proposed previously, and we'd like to repeat here, that there is a need for some kind of national forum for deciding taxation goals and strategies so that we avoid tripping over each other in terms of jurisdiction.

To conclude, we feel that economic recovery and income rebuilding, not more taxes or tax reform, are the way to go. We think the upcoming provincial budget should focus on making the public sector in Ontario leaner and more efficient and not on providing it with more resources to do more things. Thank you.

Mr Carr: Thank you very much for a good presentation. With regard to the taxation situation, as you know, this committee will form a recommendation. Would you support a recommendation to the government to freeze taxes and any new fees that the province collects in the upcoming budget?

Mr Pinnington: I think the answer to that is yes. With respect to fees, I think it's probably opportune at this time to indicate to you that certainly a number of our members—I'm not so sure about other jurisdictions, but we've experienced some immense increases in fees in the past six months or so, orders of magnitude where we paid something in the order of \$6,000 for a right-of-way fee to the Ministry of Transportation and that number now I think is around \$120,000. We're experiencing these consistently.

We wrote the Premier with regard to this. We had been advised this was a cabinet decision. We subsequently received a letter from the Minister of Consumer and Commercial Relations, the Honourable Ms Churley, indicating that there was nothing they could do, that this was part of the process. User-pay was the signal that we got. We've had them now from MCCR and from the Ministry of Transportation and we're trying to make an assessment of what the total implications are, but the order of magnitude is immense on these licensing fees.

Mr Jackson: It's passed on to the consumer.

Mr Carr: As my colleague says, obviously that gets passed right on to the consumers.

Just what transpires of course is that governments like to say that user fees will come in, and that would be great if other taxes got lowered. They don't. That's the problem. If you ask the public, they say, "Oh, yes, we're in favour of more user fees; the people who use it should pay." No government has been able to reduce taxes—and I don't even think it's the politicians who do it. Quite frankly, I think it's the bureaucrats who tell them what to say and the lingo to use, because all three parties have been guilty of doing that. That's the big problem with the fee structure, and that's why I think you're going to see more increases in fees.

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I want to tell you, something as simple as the corporate filing fee has done more to discourage business than anything else in this province. I have never seen more anger. It's the silliest thing, it's only 50 bucks, and of course they said it would be a one-time and then it wasn't. I've never heard more anger come out of people over what I guess some bureaucrat originally thought was something simple, "Here's a quick \$10 million, \$20 million, whatever we can make." They're absolutely furious. It's the straw that broke the camel's back, because it goes hand in hand and deals with the expenditure side.

We have not had a comprehensive review with public input to the reviews that are necessary. What has happened, as you know, is that as the revenue goes down, the Treasurer goes back and says: "We're going to cut x amount to keep it at \$10 billion and you're going to cut and that's it. If the revenue goes down more we'll cut more, and if it doesn't we won't."

I think we need a comprehensive strategy to look at the review of spending, to look at social assistance reform and all the other things that are in there.

What we've called for, and what I'd like to see, is the equivalent of a fair expenditure commission that looks at the expenditure side and may include everything in health care. Would you support something like that where we look at the provincial government's spending, instead of doing it the way it is now where our revenue drops and the Treasurer comes in to each ministry and says, "Boom, you're going to get x amount"? Would you like to see the public involved? Maybe you could just let us know how you see that working if the public did get involved in a comprehensive review of spending.

Mr Jones: In principle I agree, because obviously there are two sides to the same question. There's spending and there's revenue, and the only purpose of raising revenue is to fund legitimate spending that society wants and can afford.

As far as the process, one of the difficulties with the revenue process we saw through the Fair Tax Commission was the fact that because it was a provincial review, it suffered from the fact that it didn't have a federal input and consequently a lot of the proposals, whatever their merits, would require federal review and federal support for implementation.

Whatever process was set up to review spending, I think it would be helpful to have some kind of a federal-

provincial input into that. I'm not sure at what level that begins, but it would be opportune, because there's an interest, I think, in taking a new look at the way responsibilities are split between the federal and provincial governments, and also the opportunity for adjusting revenue sharing. The two sides go together. Do the provinces, for example, take over the income tax and the federal government take over the sales tax? It's that kind of dimension. You really have to begin to think in those fundamental terms, matching the revenues more with the responsibilities.

Mr Carr: I agree, and we have heard the Premiers and the new Prime Minister talk about better federal-provincial cooperation like that. Over the next few years, do you think we'll see it?

Mr Gary Lowes: We're optimistic.

Mr Pinnington: I'm not so sure it's a question of whether we think we'll see it or not. I think we've reached the stage where it's a necessity. I expect that we can't proceed much longer with the sort of indifference to what the other fellow's doing.

I think I'd like to pick up one other aspect of this question. I think what we're talking on the expenditure side is the accounting process. We would certainly be supportive of opportunities, and I think we consider this an opportunity in fact, to discuss kinds of spending and where moneys go. I guess we see ourselves participating in a public forum by being here, but there's also an internal process within government. The Management Board of Cabinet of course has an accounting responsibility. I wonder if maybe to some extent there might be a more public opportunity in that regard in terms of examining how expenditures are being made. Most especially, we're moving even more into this question of licensing fees and fees for service where those who are paying for the services should have some opportunity to discuss the costs that they're being charged.

Mr Sutherland: I guess now that we have a federal government that's willing to work with some provinces, as we've seen through the infrastructure, we might be able to make some more progress on these other issues of concern about overlapping responsibilities and duplication of resources.

Watching your presentation and your slides, I did think, when you talked about increased tax enforcement and compliance—you didn't list the ones, though, that they say to delete, for example, the municipal business tax, and there were other examples in the Fair Tax Commission of taxes that would be deleted under some of the changes. In terms of gaining a perspective, we need to put both up and see where the pros and the cons come up.

The surprising recommendation, though, on your slides that really caught my attention is that the natural gas association wouldn't be supportive of a carbon tax. Maybe you'll have to bring me up on my science. I thought natural gas was a much cleaner fuel in terms of the amount—maybe you can help me on what the carbon content is in natural gas versus other types of fuels etc. It seems to me that one of the marketing strategies of selling natural gas is how much cleaner a fuel it is.

I understand your point about whether it should be federal or provincial, and one of our forecasters, Michael McCracken, I think agreed with you that fossil fuel tax should probably at the minimum be done at a federal level. But I'm surprised your sense seemed to be opposed to the general concept of a carbon tax.

Mr Lowes: Without getting into the engineering, because I get too deep into it, and carbon, obviously natural gas is the least carbon-intense fuel, compared to oil and other fuels. Our problem with it is as much with economics as with the fuel aspect, because you have to have a level playing field for economic purposes for industries. We serve the north and we're very concerned with the industries in the north and being able to survive, and it's important for them to be competitive. If you introduce taxes that aren't held North America-wide, you have that competitive edge that may go somewhere else. That's part of our point with the carbon tax.

You're quite right; we're very much encouraging the use of NGVs because of that carbon aspect. We're very afraid if you introduce a tax for the wrong reasons and not understand the ramifications on the competitive side—again, we're comparing—and then compete against electricity, electricity does not have probably the same tax structure. We're concerned by that. You're quite right that NGV and natural gas is preferred fuel.

Mr Sutherland: What if the recommendation had said you take all the taxes you have on energy and add up the amount, say on a national basis, and you use that as the starting point for how you define what your carbon tax would be? So rather than necessarily adding on, you're going to replace your existing energy taxes on the basis of its environmental friendliness, I guess, and use that as the guide, so those that are more environmentally friendly would have much less tax; those that cause a greater damage would have a much higher level of taxation.

Mr Pinnington: Let me just make an observation. In terms of competitiveness of manufacturing industry: For example, in the province of Ontario, if we had a carbon tax, regardless if it was a weighted average or however you tried to make it more fair, you find yourself in a situation where you're penalizing Ontario industry, and Ontario industry already feels it's paying more than its fair share in terms of taxes. We are having difficulty competing with industries in the United States, so that's a problem.

The other question in terms of carbon tax is, we feel that energy use by home owners is as much a necessity as shelter and food and it should not be taxed in that regard as well.

Mr Kwinter: In your presentation you say that the per capita public debt is escalating to unheard-of levels, indicating that society cannot afford the existing levels of services, and by implication I assume you mean the services should be cut back. I think many, if not most, people might agree. The question is, which services?

The presenters just before you, the good roads association, felt that there should be some reprioritizing of our expenditures and they were calling for cuts in the social services sector. I'm sure that if the social services sector were sitting here, they'd be saying: "Why are you

investing in things and not in people? Cut the amount of money you put into things and put more money into people." How do you reconcile the fact that everybody feels it's okay to cut, as long as it isn't my particular area you're cutting? And how do you do it even if you call a federal-provincial conference to decide it, because each region has its own priorities. One priority in the Maritimes would be totally inappropriate, say, in Ontario or other places. How do you deal with that?

Mr Jones: That's part of our problem. The reality is that it's elected representatives in the end who carry the final responsibility for those decisions. You listen to views from all sides, you get pulled in all different directions, but in the end, that responsibility rests with the elected representatives. Various groups will provide advice on where they think cuts should be made. I suppose few would offer up cuts out of their own pockets. There's no easy answer. So far, it's been easier to raise taxes than to cut spending. I think everybody understands that.

If you believe you've reached the limit of increasing taxes and if you believe it's important to get the debt down—and the numbers are staggering. The Canadian Tax Foundation data suggest that Argentina, Brazil, Mexico, Poland and several other what we call less-developed countries have a lower debt burden than Canada, whichever basis you look at, and that in terms of the developed countries, I think only Italy and Belgium have a worse debt-to-GDP ratio. Only Italy has a worse debt-to-export ratio and no developed country has a worse ratio of interest payments to exports.

We're in trouble and this is one of the reasons the federal minister is wandering the country seeking advice. But in the end, the federal government will have to make

to involve pain for some groups. I suppose to ask people its decisions and make its best judgements and it's going to altruistically volunteer up their piece of the pie—it's tough.

Mr Pinnington: Maybe in partial response to Mr Kwinter, I took some satisfaction to your saying everybody is saying, "Not me", so we're all in this together. Maybe what you need to do is call these people in and say, "Give us a list of your priorities and we'll take the one off the top or the one off the bottom or whatever," so that everybody has to give something up.

Mr Bruce Crozier (Essex South): Just a quick comment. I skipped ahead in your report and glanced at your comments regarding the proposed tax changes. On page 21 under the Fair Tax Commission's proposal about taking the education tax off residents and having a common commercial-industrial tax across the province, your comment was that, "Such a major reform at this time would be extremely disruptive."

I guess my comment more than anything that you may have something to say about is, when is the right time for a major disruption? I recall municipally when we usually get the answer, it's, "This just isn't the right time to do it," and it seems to acknowledge that we have a system that has a large disparity in it, but we just don't know when to fix it. I think these are the kinds of things we have to, much the same as you've said, call everybody in and say, "It's time to bite the bullet." I think that may be the case on those kinds of things as well.

Mr Jones: I agree.

The Chair: I thank the Ontario Natural Gas Association for making its presentation before the committee this afternoon.

The committee adjourned at 1704.

Continued from overleaf

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**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Jackson, Cameron (Burlington South/-Sud PC) for Mr Cousens

Morrow, Mark (Wentworth East/-Est ND) for Mr Wiseman

Also taking part / Autres participants et participantes:

Crozier, Bruce (Essex South/-Sud L)

Clerk / Greffière: Mellor, Lynn

Staff / Personnel: Campbell, Elaine, research officer, Legislative Research Service

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Third Session, 35th Parliament

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(Hansard)**

Wednesday 26 January 1994

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des débats
(Hansard)**

Mercredi 26 janvier 1994

**Standing committee on
finance and economic affairs**

**Comité permanent des finances
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson
Clerk: Lynn Mellor

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday 26 January 1994

The committee met at 1005 in the St Clair/Thames/Erie Rooms, Macdonald Block, Toronto.

PRE-BUDGET CONSULTATIONS

ONTARIO TRUCKING ASSOCIATION

The Chair (Mr Paul R. Johnson): Our first presentation this morning is from the Ontario Trucking Association. Welcome. You are obviously prepared and ready to go, if you would be so kind as to introduce yourselves to the committee members and Hansard.

Mr David Bradley: Thank you, Chairman and members of the committee. My name is David Bradley, and I'm president of the Ontario Trucking Association. I'm joined today by Michael Burke, who is OTA's policy and research coordinator, and Lily Simon, tax manager of Motorways. Lily doesn't want this really broadcast around, but Motorways, as some of you may know, was formerly one of the top three Canadian national trucking companies. It decided in December to close its doors, I think a good reflection of the ills that have beset our industry over the last five years or so. She also happens to be a tax expert and has worked with me on this submission, and that's why she's here today.

I'd like, before I get into the specifics of our budget proposals, to try to put the industry in some context for you, because when I've gone through recent budgets to try to understand why it is that government does some of the things it does—I know full well the fiscal constraints and what not that it faces, but I still come to the conclusion that our industry is not well understood in terms of its role within the economy and its impact on the economy.

I think it would be helpful if you would try to view the trucking industry as part of the manufacturing and retail process in the province. The trucking industry does not take up space on the highway and run around carrying air in our trailers. We're there to serve manufacturers, retailers and the producers of this province. When you see more trucks on the highway, that is usually a good sign that things are getting better in the economy. Goods simply don't arrive at the customer's doorstep or at the manufacturing assembly line without being transported.

The trucking industry is the dominant mode of freight transportation, and in the package we handed out there's a colourful document on the role the industry plays. You can read that at your leisure, but I think some of the data that arise out of that might be of interest to you. This was compiled by Braxton Associates, which is the strategic consulting arm of Deloitte and Touche. We went to one of the Big Six accounting firms to try and give us an unbiased picture of our industry at this point in time.

Some of the things they found were that the trucking industry hauls 70% of the land freight in this province, so it's far and away the dominant mode. The reason is really quite simple: It's because of the service and price package our industry provides compared to the other modes.

Trucking is more flexible and more efficient, and that's what our manufacturers are looking for in order to compete in a global marketplace.

Trucking is really ideally suited to servicing the manufacturing and retail sectors, compared to some of the other modes. The trucking industry's emphasis is on small shipment, short distance. That is where we're best, and that's also where most of the emphasis of our manufacturing base is. We're ideally suited for hauling high-value-added manufactured goods, which is of course a key underpinning for Ontario's economic prosperity. As a result, we serve not only the major manufacturing sectors in the province to date, but because of our high-value-added emphasis will also be there serving the emerging industries in technology and electronics.

I'll turn to some economic numbers—not to bore you, but I think they're important. The Ontario trucking industry generates \$3.3 billion a year in GDP in this province, and every dollar of GDP generated by trucking creates about 71 cents in GDP in other sectors. That's not insignificant.

What's also important is that this money is disbursed regionally across the province. Trucking companies serve every community accessible by road, and there's nary a community in this province that doesn't have a trucking company that's made its head office there. So we're not isolated to simply one or two major centres: Our GDP and our companies are spread across the province.

The industry is one of the major employers in the province. When you look at total commercial trucking activity, we employ approximately 200,000 people, almost 5% of the provincial labour force. If you simply segregate out what most people think of when they think of trucking, that being the for-hire sector, those people who haul freight for compensation, or the private sector, those people who haul their own goods, like the breweries and some of the retail conglomerates, there are about 90,000 direct jobs allocated to those sectors.

1010

To put that into some context, to compare that to some of the other major industries in the province, motor vehicle manufacturing employs just over 46,000, auto parts 65,400, agriculture and food about 65,000, and electrical and electronics almost 69,000. In terms of sheer numbers, the trucking industry actually employs more people. That's not to say we're better or anything else, but I think that's an important context that not many people realize. And the spinoff effect from trucking is quite significant: In the for-hire sector alone, every job in trucking creates almost another job, actually 0.67 jobs, elsewhere in the economy in all those different people who serve our industry.

Trade is the engine of economic growth in the province. Ontario exports about a quarter of its GDP, and three quarters of that goes to the United States. Here

again the dominant role of trucking is really quite apparent. Some 75% of Ontario's exports to the United States by value are hauled by truck and 83% of US imports by value are shipped by truck, so it's extremely important to the economic wellbeing of this province that we have an efficient and viable domestic trucking industry.

The current government a few years ago developed an industrial strategy for the province and listed a number of competitive fundamentals. Three of them are really quite important: establishing home base activities, developing linkages and networks, and building international capabilities. The trucking industry is an essential ingredient for our manufacturers to be able to meet this industrial strategy, and in and of itself the trucking industry is a reflection of those three items.

In terms of taxes paid by the industry, again to provide you some context, the trucking industry is an extremely highly taxed industry. This past fall, the consulting firm of KPMG released a report of a study conducted for the Transportation Association of Canada, an association of provincial and federal government transportation officials, including the council of ministers of transportation. When they looked at taxes as a percentage of revenue and compared the share of trucking to other industries, here's what they found: The insurance industry pays about 1.2% of revenue in tax, the manufacturing sector pays 4.9% of revenue in tax, and the trucking industry pays 7.9% of revenue in tax, significantly higher than some of the other key sectors of the economy. This is important in an industry like trucking, where a 1% margin is significant. We're a very low-margin industry. Profit levels are thin or non-existent, and I don't see much changing that for the foreseeable future.

Why is that important to you and to the economy? Transportation as a percentage of the delivered price of manufactured export products is significant. To go through some of the major export products and the share of transportation costs to the delivered price: coal 39%, non-metal minerals 28%, fertilizers 20%, lumber 17%, chemicals 18%, newsprint 16%, grain 19%, manufactured goods 5%. It doesn't take a genius to figure out that taxes on transportation are simply translated into higher costs of those export products, which in turn make those export products that much less competitive. Those are numbers from KPMG.

We've been struggling and trying to get this message out to people. We conducted our own study over the course of the last year, again using the Deloitte and Touche strategic people. We asked them to come up with an estimate of what the typical tractor-trailer in Ontario would pay in taxes, what you would call an 18-wheeler.

In the submission you'll see the detailed charts. What they showed is that the typical tractor-trailer unit could pay as much as \$39,000 a year in federal and provincial taxes. That's a heck of a lot of money when you consider that there are about 160,000 registered commercial vehicles with a gross weight in excess of 4,500 kilograms in this province and about 18,500 registered for-hire carriers in this province; not an insignificant contribution to provincial revenues.

Where is the industry at today? A lot like our economy: Things are getting better slowly. It's not widespread to all sectors yet, but I think the signs are there. Trucking usually is a good indicator of economic activity. We're usually first into a recession and first out. We're starting to come out slowly. But it's extremely fragile and we haven't seen the pickup translate itself into any sustained financial fitness or employment growth. The most recent numbers we're able to get from Statscan—and we try to use publicly available numbers where possible—indicate that the operating ratio of the industry, which is expenses over revenues, is still hovering in the high 90s, and that's before taxes and interest. People really just barely break even. They're starting to see some black ink after a long time. We're just getting back on our feet, and we'd like the chance to do that before we're knocked back on our heels. I'll speak to that in terms of the context of some of the events of the last budget, when my message was really quite similar.

We have a number of specific budget measures we'd like to discuss with you this morning, and we'll also try and put them in the context of responding to the report of the Fair Tax Commission, which we have read and tried to understand and were participants in developing.

The first issue is the taxation of business inputs. Here the Fair Tax Commission recommended that business inputs should be exempt from tax for fairness and for competitive reasons. They cited the fact that most of the manufacturing industry's business inputs are exempt from the provincial sales tax, whereas for other industries like trucking business inputs are taxable. We pay sales tax on our trucks. We pay sales tax on our trailers. We pay fuel tax. We pay sales tax now on our auto insurance premiums. We pay sales tax on our labour for repairs. We pay sales tax on our warranties. That's simply not fair, and it's also not competitive when one considers the role of trucking in terms of moving our manufactured goods to export markets.

We were really thrown for a loop, I have to say, in the last budget. While the government talked about ability to pay as being an underpinning of last year's budget, it came along and extended the retail sales tax at 5% to auto insurance premiums. We have to have auto insurance in order to operate our business. There's a government-legislated requirement for a million dollars in liability. It really hurt to have to pay tax on that, and I'll tell you what it's done. Not only has it made us non-competitive with carriers from other jurisdictions, but I think it has also impeded the pursuit of safety because it will encourage some people to take the lowest level required of liability insurance. Many people in the industry believe a million dollars is too little.

We were told at the time that, yes, this tax could be prorated and, yes, out-of-province carriers, including US carriers, should pay that tax. That's all well and good, but we were also told, "However, we can't make any guarantees on enforcing that." I can tell you, the reality is that our competitors are not paying that sales tax, yet they're operating up and down the highways just the same as we are and we're trying to compete with them.

Similarly, with the extension of the 8% retail sales tax

to warranty work, we're paying twice. The price of a vehicle includes the cost of warranty. When people price out their products they take into account all these various risks, so we pay that when we purchase a vehicle. Now when you take in a truck for repair under warranty, you pay sales tax on the parts and the labour again. That simply is transmitted from the dealer right back to the trucking company, so we're paying one more time.

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What do we do about all of that? We've got the Fair Tax Commission saying business should be exempt from input sales taxes, and at the same time we've got discussion of GST harmonization. In fact, the Fair Tax Commission recommended that Ontario harmonize the provincial sales tax with the GST.

We believe that's the best way to go. The business community has already invested heavily in systems designed to meet the GST. It's expensive and inefficient for us to have to live with two sales tax systems, and I believe it is for the province as well. Were we to introduce a new harmonized national sales tax, BTT, business transfer tax, whatever it turns out to be in the end, I think it would address that issue of the business inputs. However, that's at least two years away. I encourage this committee in the meantime to move towards that direction, to revisit some of the decisions of the last few budgets in terms of taxing auto insurance premiums and group benefits, which hits labour-intensive industries like ours, and measures like that. We believe those types of taxes should be repealed.

Another input tax that gets a lot of discussion is fuel taxes. We're still reeling from the 32% increase in the tax that was imposed upon us two budgets ago. It was justified at the time on environmental grounds, and then it's been justified on who knows what. What it really comes down to is that it was a convenient way to raise revenue. It bears no relationship to profit whatsoever. It's simply attempted to pass those costs along, and it hits small shippers and small communities furthest from outlying markets the most. It's really a regressive way of taxation.

We recognize the financial bind government is in and consequently ask you not to impose further increases in this budget on the fuel tax. We're not asking for a repeal. We'd love to see it, but we're realists as well. We have a better way. If government wants to more efficiently collect fuel tax and make sure that everyone's paying the tax, and I come back to the question of the out-of-province carriers, there is a system available to Ontario now that jurisdictions across North America are looking at that won't require increases in taxes but will provide a more level playing field. That's something called the IFTA, the international fuel tax agreement. This is what we call a base jurisdiction agreement, where in essence carriers would simply pay tax to their home jurisdiction, that being Ontario, and Ontario would administer the tax and prorate it across the miles for other jurisdictions and send the other jurisdictions the cheque. It's much more efficient than for Ontario to have to try and track down carriers from Arkansas, from Tennessee, from British Columbia, everywhere else, and see if they're paying the

correct amount in terms of the miles they allocate to Ontario. If you talk to people in the Ministry of Finance, I think they'll tell you that despite their best efforts, there's a big hole in the net and there are a lot of tax dollars leaking out in that regard.

The US federal government has set a deadline for all states to join IFTA by 1996. The province of Alberta has already joined. Saskatchewan has announced its intention to join. New York has approached Ontario in terms of sharing the computer systems and what not that are required. As 1996 isn't very far off, we encourage Ontario to get with it and commit to joining IFTA by 1996. There are benefits not only to carriers but also to government in terms of administrative efficiency and efficient allocation of resources. That's all detailed in the study.

Another fuel tax that's getting a lot of talk, particularly in light of the Fair Tax Commission report, are carbon taxes to address the emissions problem. We do not favour a unilateral imposition of a carbon tax by Ontario, and I think the Fair Tax Commission recognized the competitive consequences that would have. I would also argue that if Ontario goes it alone, it won't do a darned thing in terms of reducing emissions. We'll simply have the winds blowing up from the States and everywhere else and it won't have a material impact. I think the commission recognized some of these points in so far as it has said there would be merit in introducing a moderate rate so we don't impair significantly the competitiveness of the Ontario industry. I would counter that if you have a moderate rate it isn't going to do anything, so why do it?

They've also suggested that there should be reductions in other business taxes so you can isolate out the environmental impact and simply not add further tax to business. I would go further and say there should be tax credits allocated back to the industry that pays them so if they undertake environmental enhancement activity they get some of that money back, and also that the money that's raised is put into research and technological development in those industries so we can actually resolve the problem and not simply create a revenue stream.

In trucking, people usually say, "We'd like to have this tactical shift, for all kinds of freight, from truck to rail." The fact is that won't happen. Trucking and rail are two different industries. We service the short-haul, small shipment; they service the long-haul, bulk commodity. We only compete on about 10% of the freight, so all you'd end up doing is increasing the cost of freight transportation for manufacturers and you wouldn't see any freight shifting from one mode to the other.

I know I'm running out of time, so I'll go quickly on some of the other items. Workers' compensation is not a budgetary item per se, but I want to tell you, as the committee on economic affairs and finance, that as the lender of last resort, some government has to wake up and realize the problems occurring with the spiralling cost in the Workers' Compensation Board. It's out of control. Our industry is going to face a 10.6% increase in our premiums this year despite an improving accident record. From 1988 to 1992 in trucking we saw accident frequencies reduced by 15% and accident claims reduced by

30%, while benefits have gone up 50%. It simply can't continue.

We believe we need a royal commission or a value added audit, something to take a look at what's going on there and to look at what's happening in most other jurisdictions in Canada where they are coming to grips with that. Right now, the Premier has some recommendations from a labour-management committee, at least from the management side, and we would urge him to take a look at those.

Employer health tax: The Fair Tax Commission has said that payroll taxes should be avoided, that they are a curse on jobs and that in fact labour ends up paying 80% of payroll taxes anyway. We're a labour-intensive industry, so the employer health tax hits our industry more than others. We look to other jurisdictions like Manitoba, where they have a similar tax but have allowed a driver's mileage, percentage of payroll, out of the province to be exempt from tax so the carriers from Manitoba can compete on a North American basis. We don't have that same ability in Ontario. We think that should occur and that Ontario should at the same time encourage the federal government to continue to allow the deduction for payroll taxes.

Corporate taxes: The point we want to make is that the Fair Tax Commission has raised the issue of the bias in favour of manufacturing as opposed to the service sector. There's a differential in the corporate income tax rate. There's probably a very legitimate policy reason for that. However, the emergence of the service sector can't be ignored. As I've indicated, it's also a very important value added sector for our economy and also a very technologically proficient sector now, and we believe the corporate income tax rate should be equalized. Obviously, I don't want to do anything to imperil our customers, and I would suggest that rather than raise the manufacturing rate to equalize the general rate, the general rate should come down.

We don't like the corporate minimum tax. We think it's going to have a negative impact on investment. However, it is going ahead, no doubt about that. We were pleased to see that the government dropped the rather onerous requirement for audits that was in the initial proposal, but we're still concerned about a couple of the measures, mainly the fact that loss carry-forwards are going to be limited to three years as opposed to seven years. That is not only inconsistent with the Income Tax Act but also, in a sector like ours, which has really been in the ditch since about 1988, it's going to mean potentially that some of the larger companies will face a CMT liability when they have really been hit hard over the last five to seven years. We'd like to see that change.

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There's a recommendation of the Fair Tax Commission that I really don't know where it came from. I never heard it during any of the discussions I was involved in, but it's there none the less. It shows up in the environmental area, and again I don't know why: the suggestion that Ontario should consider imposing a weight-distance tax on trucks. I suppose I could see where some people might see a logic in that. I would simply tell you that

where this tax has existed, it's been an administrative and enforcement nightmare for government and also for industry. It prejudices the opportunities for certain types of carriers, particularly those from northern Ontario that would be hauling lumber or minerals and have to travel empty; you pay the tax as if you were empty, anyway.

Wyoming studied its weight-distance tax back in the 1980s and found it was costing \$1.80 to collect \$1 in tax. Over the last decade or so, about 17 of the individual US states that had a weight-distance tax have dropped the tax, to the point where only five US states still maintain some sort of weight-distance tax.

What we think should happen instead is that the Ontario government should look very closely at something called the international registration plan. This is similar to IFTA, a base jurisdiction revenue-sharing arrangement based on a proration of miles, and most US states are joining that compact. We have something similar in Canada called the Canadian agreement on vehicle registrations, and we believe there's an opportunity to bridge the two. That makes much more sense than adding more tax.

The final point: Highway expenditures and infrastructure investment are extremely important for the economic prosperity of the province. We're really quite pleased with the capital program of the current government and quite pleased with the progress we're going to be seeing on Highway 407, despite the highway tolls. We're quite satisfied right now with the conditions on that. All we would say is let's not forget the potholes. Maintenance isn't quite as sexy and doesn't quite get the headlines, but it's just as important in terms of creating jobs and just as important in terms of making sure we don't have to spend a heck of a lot more money down the road when we let our highways head into deterioration, as we've allowed them to do over the last 25 years or so.

Those are my rather brief comments, and I would entertain any questions you have.

The Chair: We have about a minute per caucus. I advise the committee members that should you ask a question requiring a lot of detail, I believe that would be viewed as unfair. But a minute probably allows you to make a comment or pose a question that would imply a short response.

Mr Gerry Phillips (Scarborough-Agincourt): I appreciate the very thorough presentation. To touch on your last point, the toll roads, I was interested to hear your comment, because I think the government is doing what it says it's doing: selling a stream of revenue to the private sector in return for a \$3-billion investment. But your industry has looked at the tolls and concluded this is a good investment for the trucking industry: Get the road built and the tolls will pay for themselves.

Mr David Bradley: So long as the tolls come off once the debt is retired. We set certain conditions, and the bill that passed in the last session is consistent with that. So at present, yes, we need that investment, and we think the cost of the tolls will be far outweighed by the economic spinoff and the reduction in congestion costs.

Mr David Turnbull (York Mills): Thank you for a

very good presentation, with concrete suggestions about how the government can improve the situation. Because of the time constraint, I'll ask the questions all together. In terms of the WCB impact and the employer health tax and the insurance tax and warranty taxes, clearly the government has a shortage of revenue, but you have pointed out correctly that there is an imbalance of taxes being paid by your industry. Can you comment on the impact in terms of perhaps the demise of some of the companies in your industry?

Mr David Bradley: Put it this way: Wages represent about 32.5% of our operating costs, the single largest cost we have, and if you tax that, we have to go out and find our bottom line. The customers don't have any more money to pay so we can't pass it along, so to find that bottom line means you're either not going to hire that job next year or you're going to have to find ways to cut back in employment. That's been the impact.

There are lots of examples in the industry. Motorways may or may not be the most recent. There are a lot of factors that cause a company to decide to get out of business.

Mr Turnbull: Bottom line, are the tax measures the government has taken costing jobs in this province?

Mr David Bradley: Absolutely.

Mrs Karen Haslam (Perth): I'm interested in IFTA. Could you elaborate on the technology that would be needed for that?

Mr David Bradley: It's really quite simple. The Ontario government would require some new computer hardware and software to streamline the system over what it's got now. That can be shared with other jurisdictions, because the other jurisdictions in the northeast are also looking at joining that compact. It would save Ontario having to go buy its own system.

The Chair: I thank the Ontario Trucking Association for its presentation this morning.

ONTARIO ASSOCIATION OF CHILDREN'S AID SOCIETIES

Ms Mary McConville: Good morning. Thanks once again for the opportunity to appear before this committee. We've appeared before you annually for the last three or four years.

Before I move into some relatively brief remarks, because we would really like you to have the opportunity to ask us some questions today, I will introduce those with me and draw your attention to what's in this package of material you have.

I'm Mary McConville, the executive director of the Ontario Association of Children's Aid Societies. With me is TJ Whitley, a former crown ward of the Hamilton-Wentworth Children's Aid Society. She's presently on extended care and maintenance with that society and is attending school part-time at Mohawk College. TJ also works part-time in the association offices supporting our youth in care network. Also here is Mr Robert Penny, executive director of the Kawartha-Haliburton Children's Aid Society.

In the package I've left with you, and I do hope you'll try to find time in your busy schedules to read through it,

in addition to the remarks I'll be making to you there are some things you might want to spend some time with.

We wanted to speak to the Fair Tax Commission report but, given the limited time for these presentations, instead I've simply included in our package a report we sent to the property tax working group of the Fair Tax Commission. I've also included a copy of the proposal from our association to the cabinet on extended care and maintenance for youth in care. My remarks and also some fact sheets about child welfare matters are attached.

When I appeared before this committee last year I described for the committee a child welfare system in the province that was in crisis. Ironically, at that time we still had no knowledge of two major events of 1993, the social contract and the government's expenditure control plan. Immediately prior to those two strategies of government to address the deficit, children's aid societies in the province were already trying to struggle with constraint and making significant efforts to reduce their budgets. We pointed out at this time last year that the staff complement for your child welfare authorities had been reduced by 175 staff and that we had cut approximately \$13.5 million worth of programming for our clientele to try to contain our budgets. The social contract negotiations, at which we were present for many weeks and months, did end up with a 0.75% reduction for all transfer payment agencies in the community services sector, including children's aid societies.

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I would point out to the members that it was largely through the government's strong belief that the community services sector was already underfunded—first, it had the poorest-paid employees in the public service and, second, was under enormous stress in terms of high demands for service in a recession—that the government concluded that a modest target would be in order for the community services sector. That target translated into a transfer payment reduction of about \$10 million. That \$10-million cut, by the way, was absorbed by thousands of transfer payment agencies in the community services sector.

In the month of August 1993, the children's aid societies were asked to a government table to discuss the expenditure control plan and, in particular, the reductions that were targeted only for the organizations that operate under the Child and Family Services Act and that serve the specialized needs of children in the province. I won't go into all the complicated ins and outs of user fees and some of the things you've read about in the newspaper with respect to the expenditure control plan strategies. The net result of those decisions is that the children's agencies are being asked to take a further 2% cut to their base budgets.

What this means specifically for the child welfare system is this: The approved base budget provincially of the children's aid societies in the province in 1992 was \$378.8 million. The combination of the social contract and expenditure control plan reductions reduces that base budget to \$368.5 million.

The projected expenditure for children's aid societies in total by the end of 1993 is in the range of \$396

million. The government is presently trying to reconcile those numbers, so I don't have the final figures for you. But I just draw to your attention that the approved base for 1994 is now going to be approximately \$368 million and actual expenditures are in the range of \$396 million. We have an \$18-million gap between approved base and what societies are having to spend to meet clients' needs.

I would also like to point out that treasury plans to transfer for 1994 only \$5 million to the Ministry of Community and Social Services for what is known as exceptional circumstances in children's aid societies and presumably to address this gap of \$18 million between actual spending and approved base budgets.

As you well know, thousands and thousands of families turn to child welfare for help. The demands on our services are, not surprisingly, extremely high during a protracted recession. Children's aids in each and every instance work with a wide range of referral networks and other services to put supports in place for families in crisis, but in the last analysis, the need for protection from abuse, the alleviation of neglect and the provision of alternative care services for children are not services we can defer to other service providers. They must be provided by children's aid societies.

The other source of financial stress for children's aids, in addition to their mandatory responsibilities, is the uncontrollable cost of things like—and I was listening to the previous presentation—workers' compensation, unemployment insurance, and health care costs such as third-party billings which are now impacting on children's aid societies. The stress on municipalities is translating into an attempt to download other municipal constraints on children's aid societies as well, and that's one of the reasons I'd really like you to pay attention to our letter to the property tax commission.

All of this stress is impacting very directly on service and staff. Children's aid societies have already imposed days off without pay. Despite the low target of the social contract, our financial condition forced us to do that. We're terminating and reducing programs; we're restricting services; we're postponing the specialized treatment of children because of extended waiting lists in other agencies; we've terminated staff; we've actually faced the continued extraordinary problem of children's aids actually shutting their doors and going on emergency services only for up to two weeks at a time to contain costs.

We do believe there are long-term solutions that will help, and we've made a concerted effort to work with the government on the development of a children's policy framework. I would just like to make a few remarks about that to the committee. I have a fervent hope that cabinet especially will pay attention to these issues.

There's no question that the restructuring of social services will have to be a key strategy to address future constraint. We also believe the government must recognize that restructuring will have some front-end costs, as it will in health care and education, and that incentive funds must be made available to communities and service agencies to create integrated service structures.

We also believe strongly that if you truly wish to move from a residual method, a safety net method, of servicing children and families in this province to a more preventive approach to services, if you truly want to create that kind of transition, you simply will not be able to do it without an integrated approach to policy and legislation development at the ministerial level. It's especially important that Health, Education and Comsoc collaborate effectively with respect to policy development. You also can't effect real change without a pooling of the public resources that exist among those ministries.

Moving on to the particular obligations of the government to fund its child welfare authorities, we have asked over and over again for the last four years for several things: a new funding mechanism for child welfare; that the government take 100% funding responsibility for child welfare; and that the government use unallocated fiscal ECR dollars to help relieve the constraint on CAS budgets.

We have managed to once again join MCSS in a joint funding task force to examine our funding problems. This has been a stop-start exercise for the last three years with government. But I'd like to emphasize today that the government has virtually dismantled the funding mechanism for child welfare through a series of policy decisions that have been taken over the last three to four years, as follows:

- First of all, the government has capped the exceptional circumstance moneys that are made available to the child welfare authority, regardless of whether the expenditures qualify for that funding.

- The cabinet has decided to cut off access to treasury as of 1995 for ECR funds at all.

- The ministry has informed us that ECR funds committed to child welfare by treasury will soon be made available to serve Young Offenders Act pressures as well.

- Exceptional circumstance review dollars for mandatory services are now being made available to agencies only on a fiscal basis.

- Last, the ministry has virtually abandoned its legislated responsibility to respond to the base budget requirements of child welfare agencies through the child welfare review.

It's the dismantling of the funding mechanism and the simultaneous reduction of base budgets that's creating a very explosive situation in your children's aids. When I finished my remarks, I'm going to ask Bob Penny to try to translate that into what it's doing to agencies.

1050

I would like to end with a quote from the report of the child advocate on the child welfare system in the province of Alberta, completed in July 1993. I suggest that unless the funding mechanism for child welfare is addressed immediately, we're moving very fast down a slippery slope. The quote is this:

"There is overwhelming concern on the part of respondents both internal and external to the child protection system that management's"—in this case it's the government—"singleminded preoccupation with financial matters is translating the concept of 'least intrusion' into

a systematic strategy to justify restricted access to a reduced array of [child welfare] services.”

Mr Robert Penny: I'll be speaking to you from the perspective of a medium-sized children's aid society. We have an annual expenditure of approximately \$8 million. We serve the counties of Peterborough, Victoria and Haliburton out of offices in Peterborough, Lindsay and the village of Haliburton. I'd like to spend a few minutes reviewing what the impact of recession and economic constraint has been in terms of service demand, and then what the impact on our ability to deliver service has been in relation to economic constraint.

To provide a bit of background, what's happening in our community are things like this: The public health unit has recently terminated its early newborn intervention program, a wonderful front-line program which identified protection concerns with newborns very early on; the local school board has cut its social work budget by 40%, with resultant layoffs and cutbacks in service; the local hospital has lost its capacity to provide outpatient psychiatric service to families in the Peterborough community.

Where do families turn when these types of things are happening around them? They turn to the mandated service, which is the children's aid society. The specific impact of that is that over the past two years, from 1991 to year-end 1993, our service has mushroomed by almost 23%. If you'll juxtapose that increased demand for service with the following, it'll give you some idea of what we're dealing with here.

Remember that roughly 45% of an operating budget of a children's aid society is absorbed in salaries and benefits—we're very labour-intensive—and another roughly 45% is consumed in the provision of services to children in care. Those two elements constitute roughly 90% of our operating budgets. It follows, therefore, that if there are any major cost reductions imposed upon us, those reductions will occur either in our staffing levels within the agency and/or the services we're able to provide to the children actually in our care.

Our particular agency, faced with the constraints that have come down over the past several years, has attempted to deflect service cuts away from our children in care, but we've taken the following actions over this period:

—In 1992 we reduced our staff complement by roughly 10%, permanently laid off 10% of our staff.

—In addition, in 1992 we closed the agency down for a week. We just ceased to provide services and our staff went off on unpaid leave for a period of time.

—In 1993 we again closed the agency, this time for a four-day period where staff were off on unpaid leave.

But In 1994 the rubber really hits the road. The reality of a further 2% budget reduction, which we know is coming, in our case translates into another \$144,000 cut from our budget. In our situation, one day's closure produces about \$10,000 in salary savings that can be applied against our deficit, so the imposition of a further 2% cut raises the spectre of 14 days' closure when there will not be child welfare services available to our com-

munity. That is in addition to whatever actions we are forced to take with respect to another roughly \$58,000 in social contract cutbacks. That also assumes the continuation of the ECR process, which Mary spoke about, which in our case requires the input of \$1.2 million in deficit funding for us to provide services. In other words, our base budget last year was about \$7.4 million, and we spent \$8.6 million in responding to the level of service the community demanded and that the ministry identified as being legitimate in terms of our expenditures.

I suggest to you it is patently naïve to assume that staff reductions and the closure of the agency over periods of time can be accomplished without an impact on service. The government would have you believe there has been no impact on service. I suggest again that that is patently naïve.

What is the service impact of these kinds of cutbacks? Mary and I can speak to you about the narrowing of the CAS mandate, about cutbacks in service to children in care. You may perceive us to be somewhat biased because we're a part of the system, but if you want to test the fading pulse of the child welfare system in this province, I suggest there are objective sources you can turn to, and I would highly recommend that you do so.

First, I would suggest you consult with the child advocacy office in this province. Mary has alluded to what the Alberta child advocate office is saying with respect to what's happening to their services. If you talk to the child advocacy office here, I suggest they will confirm the visible deterioration of child welfare services in this province and will also identify the potential for tragedy which is building in this system even as we sit here.

Second, I would suggest you review the crown ward review reports which are produced annually within children's aids societies around the province. It is an objective review done by the government itself. In our case, it will reveal that in 1993 we obtained the worst report card, if you will, that we have ever had. We have failed to meet mandatory requirements in a number of areas, and I suggest the reason for that is because of what is happening in relation to our funding. I again suggest the potential for tragedy exists and is identifiable within the context of that report.

Third, for heaven's sake listen to children in the system who are able to speak to you about what is happening to them in relation to cutbacks that children's aid societies are having to undertake in this province. Turn to your output reports and have a look at what is going on, and you will find it very frightening indeed.

Ms TJ Whitley: Budget cutbacks are affecting all youth and children's aid societies. I speak today on behalf of not only myself but of all youth in care. As a result of budget cutbacks, CASs are being forced to cut programs or revise them, with less staff and resources such as life skills and social skills programs. These programs are essential if youth are going to move on to independence successfully, but more important, agencies are not able to care for the youth past the age of 18 and are forcing youth out into independence prematurely at age 18.

When I was approaching my 16th birthday, I was faced with the hard reality that I might have to go on welfare. At this point, I was not a crown ward and I had no other place to turn. As a result of my mother moving out of the province, crown wardship became an option for me, and a month before my 16th birthday I became a crown ward.

The instability of this situation made it very difficult for me to make this transition. When I was approaching my 18th birthday, I wasn't sure if my agency was in a position to offer me extended care and maintenance because of budget restrictions; this service had been terminated. Once again I was left with the instability and uncertainty that my parents, the children's aid society, would be able to provide for me financially and emotionally because of lack of dollars.

This uncertainty and instability is really stressful and affects the decisions I make. It's very hard for me to make decisions about my future, where I'm going and what I want to do, when I don't know if my rent's going to be paid next month or if I have money to buy food. I live with the fear every day of when I'm going to get cut off, when my agency is going to be able to provide for me and when they're not going to be able to.

It's essential that we have the life skills and social skills programs to move on to independence, because we don't always learn those skills in foster homes and group homes. It's from the children's aid that we learn them.

1100

Mr Turnbull: I wish we had an hour to question you. I'm troubled by what you say. I know it's a terrible problem and we must address the problems of our youth, because the problems of our youth are the problems we're going to face in years to come.

In terms of the approach that was taken by the government in reducing the dollars you get, the Conservative suggestion was that there should have been a 5% reduction across the board to salaries. I know nobody would have liked it, but you wouldn't have been faced with having days off. The fact is, people are saying, "We'll pay you for fewer days, but you get them as days off." You've had a reduction in staff. Would that not have been a better route to go?

Mr Penny: What is the least detrimental alternative? Ultimately, neither cutbacks in salary or agency closures and so on resolve the problem of the failure to fund what is considered a mandatory service. That is the difficulty. We have difficulty accepting a general application of a cutback in a system which is presumed to be a mandatory service system.

Mr Turnbull: There's no doubt about it, this government has a problem. I think they're going about it the wrong way, but I'm sympathetic to the fact that they have a serious fiscal problem. Given the number of people who are unemployed, would it not be possible to try to get volunteers, people receiving unemployment insurance, to work in the broader system to backstop some of the services?

Ms McConville: One of the things it's important for this government to recognize is that Ontario has the one system in the country where thousands of volunteers are

working in child welfare. There are lots of data I don't have here for you, but we have literally 4,000 to 5,000 volunteers working daily in children's aid societies, doing everything from social work assistant jobs, to working with adoption disclosure services, to driving kids to appointments. It's a service very rich in volunteers. If we didn't have it—and the other provinces, in most cases, don't—it would be costing you that much more money.

Mr Turnbull: Is there some way we could expand that?

Ms McConville: No. The societies make every effort they can to draw in volunteers where they can appropriately use them and we think do a very good job of that, but given the nature of the services we provide, we require professional personnel to do the case work, the court work, the adoption services and those sorts of things.

Mrs Haslam: I want to commend you on your presentation. It certainly brings to the fore the difficulties we face. I must tell you that Mr Turnbull is correct, and he often rises in the House to tell us that we should be cutting more, we need to cut more, we have to cut more, and he would be cutting more.

Because we are in a very fiscally tight situation, whose budget should we be cutting to put more funding into social services? When we cut, we try to do it to everybody. Everybody took a cut, everybody took a hit.

You've just followed the trucking industry, which says: "You're hitting us too hard. We don't want you to raise our taxes. We want you to spend more money on roads so we have a better transportation system." Would we cut from road maintenance, from the Transportation ministry, cut from the municipal ministry, cut from the Tourism ministry to give more to Comsoc, Education and Health? That's where you said you wanted to pool money for looking at the child aspect of those ministries.

Ms McConville: There are two answers to the question, and the last remark you made is part of my answer. We believe strongly that there are long-term strategies that could reduce the demand on the safety net group of services like child welfare, but they simply won't happen without a cabinet-level commitment to interministerial cooperation.

Second, with respect to the immediate problems and ongoing problems of how you fund the child welfare authority, I'm not going to tell the government from whom to take money. My job is to tell the government that you have choices to make and choices must be made—tough choices. You have a particular set of responsibilities for child welfare that you have an obligation to support with adequate resources and appropriate legislation. An across-the-board approach to cutting services, including your mandatory services, is not an acceptable approach to constraint, because it completely ignores your mandatory responsibilities.

Mr Bruce Crozier (Essex South): I have to tell you something so you won't think I'm insensitive to the problem. I was adopted and my mother lived with me as a single parent, albeit a number of years ago.

I need your help to see the following in context. The

end of your presentation says a child has the right to receive parenting from the substitute parent, the government. What's happened to the family? Why isn't there an obligation on the family? We don't live in isolation: There are parents, grandparents, brothers and sisters. Why don't they have an obligation rather than the government? It'll help me better understand why the government is turned to immediately. And not just in isolation: There are specific ones, but in general why do they do this?

Ms Whitley: Excuse me if I'm not exactly polite when I say this, but when you're a crown ward you don't have a lot of connection with your family at all. You are totally away from your family. The only dependence you have is on the children's aid society. When you're taken away from your family there's a lot of turmoil, a lot of emotional stuff going on, and you're not always in connection with your family at all. It was quite a few years before I was even connected with my mother and sister. You have no connection with your family. I'm an individual in that, because I have a lot of friends in children's aid societies who don't even know where their parents are.

Mr Crozier: I'm not insensitive. That may be your case, but is that the case in every one of them? Are there no other family-supportive people who can be held responsible?

Ms McConville: When the state intervenes and uses its authority to remove a child permanently from his or her family, the state has in fact assumed the parenting responsibility. However, obviously someone has to actually care for that child on a daily basis and we largely use foster families to provide a family for children and youth like TJ. Foster families are providing a service for the state on behalf of those children, but they have no long-term obligation as family to the children and for the most part are not there. The reality is that most children are expected to move on at 18, and they are often not ready, just as your children are not ready at 18.

Mr Penny: The bias of legislation, certainly the bias of any children's aid society in the province, is that children, to whatever extent possible, will be looked after within the context of their own families. The children who are in care are in care because there was no other alternative. All other avenues would have been explored to try and maintain them within their own family system. I would venture to say there are no children in care for whom other alternatives have not been considered.

1110

ONTARIO COALITION AGAINST POVERTY

The Chair: The next presentation is from the Ontario Coalition Against Poverty, Mr John Clarke.

Mr John Clarke: Another member of our coalition, Mr Ritch Whyman, was due to come. Unfortunately, a job interview got in the way. I think you can understand that that takes priority in his case.

There is a number of things we'd like to use this opportunity to put on record. We were, in the letter inviting us here, asked to address some issues around the Fair Tax Commission. That cannot really be, for us, our priority here today. The more important question, as far

as we are concerned, is that of the erosion of income support services in Ontario. Ways the tax system may be changed or jiggered to benefit low-income people are somewhat limited. The real issue is whether people are going to continue to have an income before we even address the question of taxation.

It seems to us that the absolutely pressing question at the moment is, as the Treasurer himself freely concedes, that mass unemployment and, by extension, enormous numbers of people on welfare remains the situation Ontario is going to have to deal with for a very considerable period, regardless of what initiatives may be taken around training or job creation.

What it is necessary to understand is that the thing that has essentially made the difference between the Depression of the 1930s and that of the 1990s is the existence of these wretchedly unpopular and badly maligned, but none the less, income support programs in the form of unemployment insurance and social assistance. There is an acute need to recognize the dire consequences that are attached to eroding further the adequacy of this system.

If we are talking about what should or shouldn't be in the upcoming budget, for our coalition the central issue is the establishment of a fiscal framework under which a number of things can be achieved.

First, we think it absolutely critical that there be an end to the ongoing process of tightening up, of excluding as many people as possible from the social assistance rolls. Over the last period we've seen a system of enhanced verification brought in for people on family benefits that now talks of people having to submit bank statements going back three years when they make an application. It talks about making, for the first time, cars a liquid asset when it comes to regarding whether people are eligible for assistance.

We're also seeing, at the provincial and local level, an incredible intensification of the policing components of the welfare system. We're seeing a great deal of emphasis placed on the hiring of eligibility review officers as opposed to case workers. At every point, when we examine the situation, we are driven to make comparisons to the United States where, it seems to us, the pace is being set with regard to so-called welfare reform. In California and Florida, we now have a situation where welfare recipients are being fingerprinted. In light of the present fixation developing in Ontario, that seems to be the writing on the wall, so to speak.

I hear a gasp, but we none the less deal with a situation in Sarnia at the moment where the local Crime Stoppers program is offering \$1,000 for anybody prepared to turn in somebody who's collecting welfare and working to collect money under the table. When you have that climate of hysteria whipped up, the kinds of initiatives you're seeing south of the border don't seem to us as implausible as they may to some here.

We're also seeing of course the erosion of the adequacy of people's income. That remains a very, very serious situation. We have 1.3 million people on welfare. Those rates are unlikely to decline very rapidly, yet there has been, of course, no increase in social assistance rates this year, not even a cost-of-living increase. The minister

is on record as saying that an actual cut in the rates is an option that will be considered in 1994, should federal transfer payments be frozen.

The final direction that we think is enormously dangerous is what we would describe as workfare. We're seeing now in Metropolitan Toronto a system that they're preparing to introduce where people will be working with agencies for their welfare cheques and a small allowance on top. The Canadian Union of Public Employees has warned that there is a real danger that people are going to be performing tasks that were previously performed by its members for decent rates of pay. This is a very, very serious situation.

Again, not in the spirit of melodramatic doomsaying but because the whole direction is so critical, I point to the situation going on in the United States, where in New York at the moment you have people who are sweeping the streets for their welfare cheques, doing work that used to be done by unionized municipal employees. Anybody here who doesn't think that is a danger is I think grossly underestimating the situation.

It generally seems to us that what's going on in the United States and in some other provinces gives us very, very major cause for concern. Throughout all of the northeastern United States, the general assistance programs have been eliminated and single employable people are being totally denied assistance. In the state of Illinois at the moment the only form of income available to single people is if they are allowed on to a program called Earn Fare, where they receive an allowance of \$157 a month paid for out of the tax revenues, and for that they provide free labour to employers.

I'm not suggesting that the Turning Point document includes an intention at the moment to introduce Earn Fare, but I do want to highlight the fact that this obsession with forcing people to perform some kind of work for their welfare cheques is a slippery slope and it's a very, very dangerous direction indeed that's being pursued here.

I would finally like to make the point that this erosion of an income support system is something that is doing enormous damage. People suggest that the problem that we have in our society is this thing called the cycle of dependency, that the problem is that the welfare systems have somehow created this incredible pattern of dependency, that they therefore need to be eroded, that they need to be replaced with job readiness or make-work schemes where people have to perform labour for their welfare cheques.

In the last year we've made several visits to the city of Detroit to meet with our counterpart organization down there. The process of cutting off everybody who was on the general assistance program was described by the people who did it as tough love. It was suggested that this was something that would promote self-sufficiency. A recent study by Wayne State University shows that the unemployment rate among those who were cut off welfare in 1991 remains 83%, testifying to the fact that if forcing large numbers of people on to welfare creates social problems, forcing them into destitution creates infinitely worse social problems.

That seems to us to be the fundamental issue that needs to be addressed in this budget, that we have enormous numbers of people who are not going back to work. While there is an attempt, I think, to deny the seriousness of the cuts that have been made, the adequacy and availability of an income support system in Ontario is being fundamentally compromised, and that is in line with what is happening in all political jurisdictions throughout North America. It's not an issue that we intend to remain silent on, and while I suspect it is not going to be the most popular issue to raise here today, for us it remains the central question.

Thank you very much.

The Chair: Thank you very much for your presentation. We have about seven minutes per caucus.

Mr Kimble Sutherland (Oxford): Thank you very much for coming forward with your presentation. I did gasp when you talked about fingerprinting going on in Florida because the sense I was being left with was that you were implying that somehow this government may be moving towards that type of direction. I want to assure that we're not.

My sense of what's going on in terms of reform is that it is trying to carry on some of the reforms that have been outlined for many years, that were certainly outlined in the Social Assistance Review Committee report in terms of helping people gain the skills that they can have so they can be self-sufficient. My sense is that the majority of young people who are on social assistance don't want to be on social assistance, but we are in a very difficult economic time. We have had a lot of people lose their jobs and people aren't on there because they want to be. They're on there, in many cases, out of necessity; there's no doubt about that.

1120

I just want to get some sense of what your organization's position is in terms of the type of things to ensure we go from a passive to a more active, supportive type of welfare system that supports people getting into training programs and supports people if they want to be active in the community in terms of volunteering and learning new skills while receiving social assistance.

The system is designed in a way that if people, because of the economic conditions, can only find a part-time job, the welfare system doesn't penalize them for working part-time. That's really what I want to get clearly from you, what your sense of the reform is in terms of how it should support people and their personal development.

Mr Clarke: Let me make clear that we're certainly not opposed to legitimate training opportunities being provided for people. Indeed, I think there is a real need to develop a much clearer critique of how exactly training services can be offered. But what I was endeavouring to outline in my presentation is that I think there is this unrealistic expectation that is being placed on the welfare system to solve the problems that are being created by mass unemployment. It is not primarily a question of reforming the welfare system. Mass welfare dependency is a symptom of a very different problem.

Our concern is not that people can be made more competitive for what jobs do exist through various forms of training and what have you. That is of course completely acceptable and needs to be encouraged, but my point is that many of the so-called make-work programs that are being created throughout North America are not primarily concerned with putting people back to work. They are concerned with, on the one hand, providing a smokescreen for the erosion of the benefits for those people who are going to remain on welfare, and also they tend to directly foster cheap labour.

They tend to create a situation where people, sometimes under the guise of training, sometimes not, are handed over to employers, where they must perform some kind of task labour for their welfare cheques. That's exactly the road that's been gone down in many of the US states, but it's also precisely what we're seeing in Quebec under the law 37 arrangement. It's precisely what we're seeing in Alberta.

I think that the Turning Point document, whatever the intentions of the government that introduced it, contains some very, very dangerous elements in terms of that direction. When you start establishing a two-tier benefit system, I think you start moving in the direction of penalizing people for non-participation in these schemes, without safeguards, without protections, and that becomes very, very dangerous.

By all means let's have adequate training, but let's also recognize that for the foreseeable future, as I've endeavoured to stress, there are going to be huge numbers of people who remain out of work. Is there going to be an income support system for those people? In our opinion, there must be.

If it's presented as a cost-saving measure, my suggestion would be that if you are going to have mass unemployment, enormous numbers of people out of work, you can choose either to provide them with income support or you can put your money into prisons and psychiatric institutions and whatever else. But one way or another, you're going to pay.

Mr Phillips: I appreciate your being here. You're an articulate spokesperson. I think it is fair to say, though, we have to find ways to improve the system. For whatever reason, a number that jumps out at every one of us is that every year we've seen the social assistance case load increase, even all through the 1980s. The "recession" ended in 1983, and yet the social assistance case load has gone up every year since. Somehow or other we have to find ways to improve it. It probably won't be enough to just say one would resist any change.

Can you give the committee any assistance on how we might improve the efficiency of it, on the assumption that dollars are, frankly, limited and if we can find ways to spend those dollars better it's of benefit to everyone?

Mr Clarke: The way the question is posed, I fear I perhaps am not going to be that helpful to your request, because I think so much of what needs to be done lies outside the welfare system itself. Again, I make the point that yes, by all means, let's improve training opportunities, let's have more spaces in community colleges for people to develop the skills they need, let's ensure that

some of the rules that tend to trap people in the welfare system be removed.

In the very early part of this decade, you had the removal of the 120-hour rule, under which anybody who was on family benefits who worked more than 120 hours a month for three months found himself or herself excluded from family benefits and had to go back on general welfare assistance again. So you had direct things, and still have direct things, that tend to discourage people and trap them into the welfare system. Those things I agree need to be weeded out.

But I also think we need to recognize that the increase in welfare case loads has not taken place because of some intrinsic failure within an income support system. We had the recession in the early part of the 1980s. This was followed by a limited recovery, in which many of the people who went back to work went back at greatly reduced rates of pay. The erosion of the minimum wage continued throughout the 1980s. Therefore, it was fundamentally a lack of decently paying jobs that created large-scale welfare dependency, and of course the recession of this 1990s period has at least doubled the number of people on welfare.

I believe that the fixation with curing the alleged problems of an income support system is fundamentally a red herring. The real issue is to deal with the questions of creating jobs and ensuring decently paying jobs, raising the minimum wage, reducing hours of work without reducing people's pay. These are some of the questions that I think need to be taken up.

Mr Crozier: In the recent past I've had the opportunity to talk with a large number of my constituents, and I have to tell you that if it were not for governments in the past, in the present and perhaps in the future that have some compassion towards this problem, if you were to ask the average working person on the street what their feeling was about social assistance, the answer might very much be more difficult than what the government's giving you under the present circumstances.

That having been said, I think one thing that you mentioned that bothers me a bit is the fact that you have to prove that you need this assistance. Many of us here, and you too perhaps have gone through your life proving yourself. But when you're in an unfortunate position, so I can better understand this, I wonder why it is you're concerned about having to prove the need. I think if the public could be more sure that those who need social assistance are receiving it and those who don't aren't, it would go a long way towards a better understanding generally of the situation. So why is that a concern to you, having to prove this?

Mr Clarke: Just on your initial comment, I don't think the question of whether there's an income support system comes down to a question of government compassion. I think the programs that have been put in place were established following the 1930s, and they were established because there was a very huge social mobilization among unemployed people at that time. People were simply not prepared to accept the conditions that existed in that period, and some social programs generally, including the income support programs, came into

existence. I don't think it's fundamentally a question of popularity; I think those programs arise out of some very definite conditions.

To deal with your main question, I think it's not to suggest that there aren't already checks and balances within the system; to say the least, there are. The problem we have is not with people establishing that they are in need and then receiving assistance; the problem is with the climate of witchhunt and the intensification of policing methods that are very often arbitrary and very often unfair and that in many cases deny people assistance that they are palpably and definitely in need of.

1130

Whenever the question of welfare abuse comes up, the figure of 3% abuse rate is usually bandied around. Actually, that was arrived at somewhat unscientifically. But there is no evidence to suggest that there is this massive problem of welfare fraud. As a matter of fact, anybody who has ever functioned as an advocate for people on assistance, and there are literally dozens of agencies, legal clinics and others, in this very city providing those kinds of services, will be aware of the fact that each and every day you confront the problem of people who, for one reason or another, usually because of bureaucratic whim, have been denied assistance that they were entitled to. The problem of underpayment to persons in need, in our experience and in our opinion, is much greater than the problem of people getting money that they're not entitled to.

The system, the way it functions, is so fundamentally arbitrary that if you create the sort of political climate where the wink and the nod comes down from the politicians to the welfare functionaries, it's quite possible to deny enormous numbers of people assistance that they very, very definitely need, and in that way of course handle some of the fiscal concerns that governments have.

We think that the campaign of intensified policing has nothing to do with establishing legitimate claims; it has a lot more to do with railroading people and denying them money that they need and are entitled to.

Mr Gary Carr (Oakville South): I spent some time with small and medium businesses. These aren't big corporations; it's somebody who has owned a small men's wear shop or whatever over the last little while. What I was hearing from them is that they are saying they are competing with the state in terms of jobs—a lot of those jobs are minimum wage-type jobs—and a lot of them are saying, and you've heard this a lot in the public, you're better off on welfare than taking a minimum wage job.

What do you say to members of the public and some of these small business people who are saying today, in the province of Ontario, you're better to go on welfare than you are to take a minimum wage job in terms of economic benefits to the person? What do you say to them?

Mr Clarke: First of all, it is true that the minimum wage has declined in terms of its real spending power to the point where yes, some people on social assistance

who have dependants, at least, would be receiving more money on social assistance than they are on minimum wage. When I look at the incomes that people with families on welfare receive, it's only a reflection of the fact that you couldn't possibly support a family on the minimum wage.

This question of how can we convince people to work for very low wages if there are welfare cheques available repeatedly comes up. I think, not to beat around the bush, that really gets down to what for us is the essence of the question. I completely accept that there is a correlation between the adequacy of an income support system and the ability of employers to pay low wages. In the final analysis, I think this is what this debate is all about.

Just recently a document came out from the Bank of Canada talking about, again, this question of the natural right of unemployment, suggesting that it was healthy for the business climate to have a million people out of work. If those people have access to unemployment insurance cheques, they have some choices. If all they have are welfare cheques, the choices are even more limited. If they don't even get a welfare cheque, as we've seen in the United States, then they're quite literally ready to work for anything, under any conditions, any job that's available.

I accept that's the case, but our intention is to be partisan in this matter and to say that an adequate income support system is fundamentally important for the unemployed and for the poor, but it's also fundamentally important for people who work for wages because if that income support system is removed, the pressure on wages in terms of a downward spiral would be enormous.

Mr Carr: The young lady prior to you coming on talked about having some life skill training and she thought it was very helpful. Are you in favour of mandatory life skill training for people on welfare?

Mr Clarke: No, we're not in favour of mandatory training. It's generally counterproductive, generally unhelpful. We are in favour, yes, of training being available, although again I would make the fundamental point that I don't think it's a question of the inadequacy or fecklessness of people on social assistance. It's a question of a lack of decently paying and available jobs.

Mr Carr: Just with regard to the fraud, the auditor has talked about a figure of higher than 10%. He's talking fraud and mismanagement, because you know the mismanagement includes not having computers where you check for unemployment and welfare. There is some out there. He used a figure, and it isn't my figure. The auditor in the previous auditor's report used the figure of 10%. That would translate approximately to \$620 million.

In my own Halton region, they did have an investigator come in, paid him \$40,000. He saved them, apparently, \$800,000. You're saying that the people who truly need it don't have enough money. How can you say that we shouldn't have these measures in place when we don't have enough money and people who legitimately are on social assistance don't have enough because there isn't enough money? How can you then say that we shouldn't be looking at the fraud that the auditor says could be as high as 10% and \$620 million?

We could then take that, give some more to those truly in need or pay down the deficit or tax reduction or all the numbers of things. How can you not talk about the whole issue of fraud regardless of what the figures were, whether it's 3%, 10% or 1%? When we're talking numbers we're talking substantial. Why are you so opposed to having the people who may be abusing the system thrown off?

Quite frankly, what happens, the one case that is reported—and you see them in the paper—taints everybody, because that's why we've got this perception that everybody is like that. I know it isn't right, but that's the way politics and everything works. How can you not talk about the fraud issue when I really believe that unless you deal with that there isn't going to be enough money for the people who truly need it?

Mr Clarke: Because, as I was endeavouring to point out, we're really I think dealing with a situation where a campaign of intensified policing of the welfare system is not primarily a question of establishing entitlements but a question of denying assistance to people that they are in need of and entitled to.

Again I make the point, I think if we look at the legal clinic system that we have in this province, and it's only one arm of this whole industry that's involved in trying to get people money that they're entitled to, every day you get people sitting behind desks, lawyers, community legal workers, who take phone calls from people who have been denied something that they are definitely and clearly entitled to.

I would again make the point that this 3% figure that was brought out actually comes from a study that was done by Peat Marwick as a background paper to the SARC report. The Marwick paper said that it understood that the problem of underpayment to clients was actually a much greater problem than the problem of overpayment and fraud, but unfortunately no data existed on those questions so it wasn't going to go into them.

I think that if we ever were able to arrive at a situation where this question of the denial of assistance to people was seriously examined, we would find that indeed it is a much greater problem. I'm concerned, not that people establish entitlement—that already is a requirement—but that we get this rampant denial of assistance to people who deserve and need it.

Mr Carr: In my region, the person I asked was the director of social services and she said it's as high as 10%. Again because I have no way of knowing—we all in our constituency offices hear—although I will tell you this, and I'll use this as an example, in my daughter's school—as you know, my wife can't collect social assistance because I'm working—there are single mothers there who are living with people and so they should not be able to collect. But they are collecting because they are not reporting the other person living there.

If we make a conscious decision to have an income minimum level, that's fine, but the government has not. So those people—when you're a single mom living with somebody, getting social assistance, you should not be on. If the government came out and said, "They should, because we need to help people at the lower end," that's

one thing, but technically they are not entitled to be on social assistance but they are. I can tell you in my daughter's school, that is rampant.

What do you say to people right now—and I shouldn't say rampant, a bad choice of words, but I can tell you, ladies in my daughter's class are on social assistance, living with people they should not—what do you say to people of whom the average public says, "Those people should not be on social assistance and collecting"?

Mr Clarke: Actually, the old so-called man-in-the-house rule that used to exist has been replaced by a somewhat liberalized system and there's now a three-year grace period that's involved. This is a change that took place.

I think, however, that if we're dealing with the question of single mothers living on assistance, I don't think there's perhaps any group of people who have been more maligned, more subject to intrusive investigations, more frequently pressured and railroaded off of benefits that they were entitled to than single parents.

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Back in the 1980s when I was involved with an organization called the London Union of Unemployed Workers, we uncovered a document that the Ministry of Community and Social Services was using with regard to investigations of single parents. It called for investigators to go to their homes to look for notes on the fridge, to look for tire tracks in the snow in the early morning, and instructed investigators that if men were present in the house, identification should be demanded from them.

I think it's fundamentally a misconception that there aren't lavish checks and balances within the system. I think the point that's frequently made is that abuses of other systems that allocate government funds have a much greater abuse rate than social assistance. I think the zeroing in on and the fixation with the question of welfare abuse is part of a political agenda that doesn't have that much to do with defending the integrity of that system, but more has to do with justifying cutbacks and erosions within the system.

The Chair: Thank you, Mr Clarke, for your presentation on behalf of the Ontario Coalition Against Poverty.

FEDERATION OF WOMEN TEACHERS'
ASSOCIATIONS OF ONTARIO

The Chair: The final presentation this morning is by the Federation of Women Teachers' Associations of Ontario. Please identify yourselves for the committee members and for Hansard.

Ms Barbara Sargent: Thank you very much. My name is Barbara Sargent and I'm president of the Federation of Women Teachers' Associations of Ontario. I'm pleased to have with me this morning Sheryl Hoshizaki, the second vice-president; Pat McAdie, our research assistant; and Joan Westcott, executive director.

We are very pleased to be here today to speak to you on behalf of the 41,000 members of our association who teach in the public elementary schools. We would like to not just speak about adequate funding for education in Ontario, but also address some of the wider social issues.

First of all, I'd like to acknowledge that we do

recognize the serious problem in our economy and we know that it is difficult at this time for a government to maintain funding for any existing programs. We do recognize that it's not our job to tell you where to cut funds in order to provide the needed money for education and other vital social programs.

But we would like to speak you today about the importance of education, particularly early education, and of the other support systems designed to make our society a little fairer. The responsibility facing any government at this time, regardless of the economic situation, is to set priorities for public spending. We do recognize that there may be fewer dollars than are anticipated, but where they should go should reflect the principles and ideals of this government.

We recently made a presentation to the Royal Commission on Learning. In that presentation, our conclusion I think summarizes our vision for the future. I would like to highlight that for you.

"We visualize schools where all students' needs are met, where all parents support their children whatever their skills and abilities might be, where a stimulating, resource-rich environment is available, where school and community support systems are abundant and well coordinated and where educational leaders in politics and administration focus as much attention on what is exciting, innovative and successful in our schools as they do on what may need improving."

We do feel that dreams are possible to attain. Most importantly, we dream of seeing this province get back on the economic footing that will allow all of its citizens to participate to the fullest of their abilities.

What we would like to deal with today is our view of what the government's priorities should be. We would like to discuss financing of education, child care, poverty and the integration of services to children.

But first of all, before I go any further, I must make a few comments about the social contract and the expenditure control plan that has been put into place. FWTAO disagrees with the Social Contract Act as well as with the process that was used to put it into place.

It has been stated that education is the key to this province's ability to compete in the global economy. To reduce funding and reduce the number of teachers reduces the ability of this system to provide quality education, and thereby reduces our ability to compete in this new reality. We cannot tell children that they are vital to our future and then cut the very programs that will allow them to participate in our future. We believe we must give them the very best education possible.

To impose both a social contract and an expenditure control plan is putting a double burden on the school system at the expense of the children in Ontario.

In the area of education finance, and we've said this for a number of years and we will continue to say this, education is not being adequately financed by the province now nor has it been for some time. We believe that education does not deserve the continual paring it has received in the last while. Expectations of the school, of the curriculum, have escalated as new initiative after new

initiative has been added and the range of social problems to be addressed has been expanded.

We agree with the Fair Tax Commission, as we interpret its position at this time, that too much reliance is placed on the property tax for education costs. The present grant structure is only fair if the government's share is much higher. I believe this is illustrated by the Toronto school board's recent decision to give Pepsi Cola Canada exclusive access to the schools. We believe this was not made on good pedagogical grounds nor was it done with the collaboration of parents or teachers. We disagree with this decision but we do understand the desperation of the Toronto school board and other boards in feeling that such decisions are necessary.

We do believe, and you have seen in the fall, in the past few months, that some school boards are trying to force teachers to bear the brunt of this inadequate funding. I think this has been illustrated by the recent unrest in teacher-school board collective negotiations.

We also agree with the report of the Fair Tax Commission that there needs to be some local discretion in funding of education, because local needs do vary across the province and this needs to be recognized. All children have the right to a quality education regardless of where they live in this province, regardless of the local school board's ability or willingness to raise additional funds.

We applaud at this time the attention that the Ontario government has given to early childhood and primary education since the mid-1980s. We believe this must continue. We commend the current government's decision to mandate junior kindergarten in every school board by September 1994, but we are concerned that school boards may be able to opt out.

We continue to urge the Ministry of Education and Training to ensure that all school boards are required to offer some junior kindergarten programs in September 1994 and that any exemptions for full implementation be for very sound reasons, because we do believe that there should be equal access to junior kindergarten programs across this province.

Children also need access to their teacher's time. Lower class sizes ensure a much greater opportunity for the classroom teacher to provide child-centred programming and to more adequately observe the development of each student. FWTAO urges the provincial government to ensure that school boards maintain low class sizes in primary grades so that each child's skills will have a firm foundation.

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In the area of integration of exceptional students into the elementary classrooms, we believe there has been some success in this, but this integration must be and must continue to be supported by additional resources for the classroom teachers, including appropriate learning materials and equipment and teacher assistants who are trained to assist the student with the student's specific learning and physical disabilities.

It has always been difficult for this federation to understand why the Ministry of Education has invested more money per pupil in the education of secondary

school students than of elementary students. We urge this government to eliminate this differential in per-pupil grants between the elementary and secondary levels.

We have made some comments around some of the recommendations of the Fair Tax Commission. I'm not going to go through them, but I just want to say that we haven't had the chance to fully study these recommendations in depth. We recognize that, along with these recommendations and the recommendations of the Royal Commission on Learning and also the study of the Ministry of Education on education finance, we would like to have some further dialogue with you around all three of these issues, because we think they will go hand in hand.

In the area of child care, we strongly believe in the concept of publicly funded, universal child care. We are concerned about the recent federal throne speech that included every campaign promise except a national child care program. We strongly urge this government to take direct action. We believe we cannot continually put child care on the back burner. Over 90% of all child care is provided outside of licensed day care centres, and our children deserve quality child care.

Ms Sheryl Hoshizaki: First of all, I'd like to thank the people here for the opportunity to speak to you. As you know, I was introduced as the second vice-president and that means it's an unusual circumstance in which I get to speak and not just summarize.

I was listening to the presentation by the gentleman before us on poverty, and since the two concepts that I would really like to talk about today would be poverty and integration of services, I thought about what we could do actually to bring that issue home to the people here and how it impacts on education. Then I was listening to the questions Mr Carr was asking and I was thinking, how can we tell you what it really feels like or looks like in education and in our schools?

I remembered back to 1985 when I was teaching grade 5 in a northern Ontario school. About 9:25 or 9:26 on the clock, the door would open and a young girl about 11 or 12 would come into the classroom. I would be in the middle of teaching something that I thought was very important and essential to life and I would look at her with that look teachers have that basically says without saying it, "You're late." She was very shy, very quiet, and she would just slip in, get her things ready and get to her desk.

About the third or fourth time, I went into the lecture on work values and promptness, all the things we do and insist on doing. Then I talked to other teachers and asked them if they were experiencing the same difficulties with this person who would be late every day. I found out that her life was far more complex than I ever realized.

She was living with her family, which was her mom and two little brothers, who were 5 and 6 years of age. They were quite the characters. We spent a lot of time with them in the school, since they had a tendency to go outside the boundaries in every aspect of the school. You can imagine the handful they were. They were living in a hotel room downtown in our community.

Her mother worked nights, and her responsibility was to get up, get those boys ready, make them peanut butter sandwiches for breakfast and get them off to school. Then she would take a half-hour to get herself ready, because as an adolescent you can imagine how important it was for her to look just right to come to school that day.

I realized how my issue in her scheme of life was quite minimal. I've actually never lost sight of that picture of that young girl in the classroom. I guess what is the most devastating thing for teachers in Ontario is that we know that chances are she's going to grow up to become one of our disfranchised parents and probably live in similar circumstances. One of the only ways in which we can bring poverty into our lives is to understand it and not look at it in some bureaucratic fashion.

The second concept we would like to bring forward is the concept of integration of services, because maybe herein lies the hope that if, as a system, and education being part of that system, we can start serving children and all their needs, that might assist in the increased costs of serving children. We have to recognize that there are prototypes in Ontario that have attempted to do that.

In this brief, ISNC, which is the integrated services for northern children, is part of that process. I have participated in using that service. It's the combination of several ministries and they cooperate by sharing services both in human resources and in sophisticated diagnostic processes.

Part of the problem that we're trying to work out in that process, though, is that generally speaking bureaucracies are set up in a hierarchical fashion and children's needs are in a linear fashion, which means that there has to be a lot of dialogue, a lot of integration of processes for this to happen. Many of us in education, people in community and social services, are not used to and have not traditionally or culturally participated in serving children in that manner, so we need some assistance in doing that.

The recommendations have been outlined in the brief. I don't want to expand on them nor read them to you, but I would like to say that teachers in Ontario are working very hard, setting up cooperative hot lunch programs, doing all the tinkering with systems that we can do. But we now know that we're in a crisis situation when it comes to poverty and serving children, and we need some assistance in the actual bureaucratic process. Financing is certainly an issue, but it's not the only issue. It's far more complex than that. We hope that you would consider that.

Ms Sargent: Thank you very much at this time for giving us the opportunity to address you. We hope that this government will give priority to the needs of poor children, women and poor families, because we believe that when the poverty cycle is broken, we all will gain.

Mr Phillips: I'll start off. We appreciate very much your presentation. We're trying to get a handle on what's actually happening in the schools in terms of the implementation of the social contract and expenditure reductions, because this is an opportunity to kind of humanize all of this sort of thing.

My impression right now is that a lot of the savings are coming about as a result of larger class sizes, whether I'm right or wrong. Can the group help us along in terms of how this is actually being implemented in the schools? What are some of the implications of that?

Ms Sargent: Certainly the area of larger class size is a concern and that definitely is happening. Teachers have been faced with more and more students in their classrooms. It's just not the issue of larger class size, because students bring into those classrooms problems and so on that teachers have to deal with on a day-to-day basis.

Along with the larger class size, we are also seeing a reduction of resources. That reduction is not only in material and so on, but it's in the reduction of human resources, in teacher aides, in resource assistance teachers, in speech teachers, in behavioural assistance and so on. It's happening in many areas and it has created a lot of stress for teachers.

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Ms Hoshizaki: I've just come back from visiting a lot of the schools in the last two weeks and talking to teachers and looking in classrooms and seeing different ways in which school boards are dealing with the social contract, and it's interesting to really realize that in spite of the situation there are really good things that are happening in the schools. There's no doubt about it.

But we can't ignore the fact that I think the impact of the social contract is moving more into the classroom between teacher and student than anybody else in the system. I don't know if that was the intention of this government, but that certainly is the realization, that the actual onsite delivery of education is being affected dramatically in Ontario.

Mr Phillips: Many of your recommendations do I think involve more spending, which is a challenge for us, I must say, because we've been through a period where all of us, including yourselves, are involved in trying to manage with the same or a little bit less.

Can the group be helpful to us at all in terms of any research you've done on, how is this all working out in the schools, the social contract, expenditure control? We can only respond to it if we see the real picture, and sometimes these things occur on a trend so you don't see the change occurring very quickly.

Ms Hoshizaki: I'm not certain if each recommendation is specific enough to say we're looking at more funding or more expenditures. I think really it's an evaluation of where funding is going right now and an adjustment to that to prioritize what we would see as essential to deliver education in Ontario to Ontario's children.

I don't want to keep going to back to integration of services, but I think that's a key component, mostly in the fact that the delivery of integration of services is so dependent on dialogue among the ministries. That's the beginning. Then recommendations can emerge from that once the dialogue begins, but it's really frustrating to not get that really on the table. Then that will address issues such as child care and poverty and services to children that are outside the realm of education.

Ms Joan Westcott: If I could just speak to the social contract and how it's translating into the local level, I think the biggest difficulty is the fact that there are still so many unknowns about the social contract.

While we can all merrily say that as of August 1 we could say we had a sectoral agreement provincially and that things then were just supposed to go to the local level and everything would fall in place, the fact is that, in order to assist our locals, we still do not have what we refer to as the template, which was to be the model that would help the school boards and teachers at the local level implement the social contract. That hasn't been agreed upon yet. It has now gone to arbitration and the dates for the arbitration extend into June 1994. This does not assist at all in helping those at the local level cope with the impact of the social contract.

It's very stressful for those who are trying to lead on behalf of the federations, as well as on behalf of the school boards, at the local level to get things in place. The teachers aren't sure really what some of the implications are. They know they have fewer resources. They know they're going to make less money. They know they're going to have some unpaid days. They know a lot of things that are going to come some time. They've felt some of them and they don't know when the other shoe's going to drop, and they keep hearing about what's next.

There's no question that the stress level of the social contract is throughout the province. We're working with our members about predicting what the implications are going to be. We know part of the agreement is fewer staff. We know that means larger class sizes. So there are some things we're fairly certain are going to be in place by the end of the social contract, or will be the implications by the end of the social contract, but the sense of the unknown really has brought a very high stress level.

Mr Carr: You probably weren't here when the children aid's societies came in too and they were talking about children. The term they used is that this has been the worst dismantling of services and funding of the child welfare system ever. I'll repeat that: It was the worst dismantling of services and funding of the child welfare system that they'd ever seen, and they went into great detail.

It's a little ironic that it happened under a socialist government. But I think when you think about it, all of the things we care about, whether it's education, health care, they really don't depend upon the compassion of government; they depend on having a healthy and prosperous economy to support them. It's ironic that this government's legacy—and I know Karen's a teacher and very compassionate—at the end of the day we will be worse off under this government than any other government in our history.

As I was thinking, you probably have more of a responsibility because the standard of living of our children is going to be in direct proportion to the skills and training that we give them. So to throw the ball back in your court, you have a tremendous challenge ahead of you. How we can help is to change the system. We can debate funding all we want. I don't think it's going to happen; it wouldn't happen under a Conservative govern-

ment, a Liberal government or an NDP government. The federal government's broke and the provincial government's broke.

One of the things we can do is change the way we operate and one of the things that I've advocated is getting rid of a lot of the administration and the trustees and the bureaucrats in the Ministry of Education and really giving the teachers, the principals and the parents at the school level the real power to make decisions, whether it's violence in school—as you know, if there's a problem with a kid and violence in school, by the time it goes up to the superintendent and all the levels of appeal nothing ever happens.

As an association, are you in favour of doing that decentralizing and giving more authority and responsibility to the groups—the primary groups being yourselves, as teachers, principals who I think have a big role and parents—and really giving them the authority in the schools to make the changes that are necessary? Quite frankly, I trust you people in the front lines better than I do the bureaucrats in the Ministry of Education or trustees. Your thoughts?

Ms Westcott: I'm sure all of us are prepared to make some comments on this. Let me just start by saying that one of the positives, I guess, in all of the negatives that we face in education is that we know, in spite of so much, our teachers go into the classroom and they work with the 30 or so students they have in their classroom each day and they make it work in spite of everything else. But I think we all have to work to make sure that we don't take away from the teachers the kinds of support systems that are needed.

The teacher in the classroom today probably needs more support services than we've imagined in the past and that's why our proposal for better integration of services isn't always saying we need more money and more money. It may be just redeployment of some of these services that are there; it may be better coordination of those services. While your question focuses specifically on the school board structure, part of that school board structure is support for the teacher, for the classroom teacher, for the principal of the school, for the school community.

Yes, we've always been very supportive of the involvement of parents in the school. We recognize the importance for the child and for the classroom teacher and we've been fortunate at the elementary level because parents tend to be much more involved in the schools at the elementary level. Unfortunately, for a number of reasons, parents don't continue that involvement as the student grows.

But we want to raise the issue of support services. We aren't an association that has gone out supporting the huge, elaborate bureaucracy in any structure but we do want to acknowledge that there are support systems that are needed.

Mrs Haslam: I don't think anybody is surprised to hear that I firmly believe in your second sentence and the right that workers have to free collective bargaining. If anybody doesn't realize that this is my position, they haven't been paying attention, and I will say something

about Mr Carr's comment. You know, no one is better off after a recession or a depression like we've gone through, but I think that history will show that you're better off because we were the government rather than the other two parties after this recession.

I'd like to talk about some redeployment. You talk about the redeployment of existing resources and setting priorities in where that funding goes, and to also go on a little more about that pool for children. I'm interested because the children's aid society talked about the same idea about pooling the resources and taking a look at how we can help children.

My concern is, when you look at redeployment of existing resources, I don't know how that can be done in the education system, given the cutbacks that we are all experiencing in all the ministries, and whether looking at pooling the resources for children is the answer.

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Ms Hoshizaki: All I could really refer to, I think, would be ISNC, which is the integrated services for northern children. That is a process that in some ways pools the resources.

Mrs Haslam: Can it be done on a larger scale?

Ms Hoshizaki: I can't see why not. I don't know. I've worked within the framework of a small scale, but maybe there's more vigilance and more commitment to the process that has to occur. But I cannot see why not.

For example, small school boards cannot afford the large resource base. They couldn't traditionally afford a lot of diagnosticians, for example. Full-time employment is really difficult. Speech and language would be another area. Yet the need for that type of assessment at that level is fairly critical in the north; in fact probably more critical in the north than any other place in Ontario, interestingly enough. So of course we need the services.

As a principal in a school in northern Ontario, I used those services often, but I didn't need them all the time. In that way, I shared that service with other school boards such as Red Lake, Atikokan and so on. It is a way of pooling resources, using them at a time, and then collectively being able to meet the needs of children.

Mrs Haslam: One question about priorities. I know my colleague would like to go a little further on the pooling and liaison and maybe mention some of his concerns. But on the idea of priorities, we've had the MTO, the trucking industry, come and say, "The priorities are roadways and maintenance and lowering taxes so we can operate our business more efficiently." You come and the children's aid society comes and you say the priorities are education, the priorities are children's aid societies, the priorities are the children, and I agree with you.

How do we balance that? I am concerned that we don't look at saying there is no more money in the Transportation ministry because it all goes into education. How would you balance that?

Ms Westcott: I'll start that. I think you have to start looking at what has happened to provincial government funds over the years. Education has been receiving a smaller piece of that.

Mrs Haslam: True. I used to be a trustee, so I know.

Ms Westcott: Continually a smaller piece. I think we have to re-evaluate how we look at everything that has to be funded provincially. We happen to believe that the youth of this province have to be given higher priority than some of the other matters. We cannot support the dwindling resources that continue to go to education because some of the other issues seem to politically get higher priority. We think our children need to have a higher priority and we think the young children and the schooling in the early years have to get the highest priority so that we can eliminate some of the difficulties later on.

Mr Sutherland: I've been working with groups for the last two years, trying to resolve speech services in my riding with the liaison committee. Unfortunately, we're two years later and every time we think we're close, some other obstacle comes up. So when you talk about integration of services, I agree.

You mentioned the Pepsi deal. Other people mentioned the Pepsi deal. What's the big deal about this Pepsi deal? When I went to high school, there were Coke machines in my high school. When I went to elementary school, there was only one brand of milk that was available for you to purchase. I'm just trying to find out, and I really don't know the details, what makes this deal so much more significant than any of the other contracting that goes on for one specific type of product, whether that be food services, milk, whatever.

Ms Sargent: We recognize that there has been in the past corporate involvement in the schools, but what we are concerned about is the fact that this is an exclusive right for a corporation to come into the school. There are excellent partnerships that are set up in schools across this province today, partnerships where, for example, Canadian Tire has gone into a school and outfitted an auto-working lab for students where students can use those resources and learn from them and develop their skills. There are other examples of computer companies that have gone in and provided equipment for schools, and students use those.

In the area of Pepsi, they're coming in and they are providing their product for students to buy. Now, we also recognize that there are already machines and so on in the schools, but the profits and the money from those machines now go directly into the school, go directly to the support of field trips and whatever and programming. This now is going to be taken out of the hands of those individual schools and it's going to go into a central fund. We don't know whether that money will indeed sift down. So there's going to be a loss of individual schools' ability to use some of those funds.

The other aspect is the aspect of, what are we saying to our students when we're saying it's all right to have all of these machines and so on in the school, when we're trying to teach good nutrition to our students?

Mr Sutherland: Maybe we could ask research to get us a copy of the deal or what the terms are, whatever they could come up with, because, you see, I'm still not sure what the difference is. Does it mean that every school has to have a Pepsi machine if they don't now?

Ms Sargent: That's right.

Mr Sutherland: You see, I don't understand. Does there have to be the big Pepsi banner?

Ms Sargent: Yes.

Mr Sutherland: What is the difference between this deal and the other deals?

Ms Sargent: Our understanding is that every school will have a Pepsi machine, that the Pepsi-Cola company will be able to distribute T-shirts, hats—

Mrs Haslam: Distribute or sell?

Ms Sargent: I think they'll be offered as prizes for certain things.

Mr Sutherland: So you're saying it's kind of like the golf tournament sponsorship now where it's some company, a certain Open type of thing.

Ms Sargent: It's more than that.

The Chair: I thank the Federation of Women Teachers' Associations of Ontario for making a presentation before the committee this morning.

The committee recessed from 1217 to 1408.

RETAIL COUNCIL OF CANADA

The Chair: Our first presenters this afternoon are Alasdair McKichan and Peter Woolford, representing the Retail Council of Canada.

Mr Alasdair McKichan: I'm Alasdair McKichan. I'm president of the Retail Council of Canada. Peter Woolford, vice-president of the retail council, is with me. We appreciate the opportunity to appear before you today. I would propose, if it pleases the committee, that I would simply digest verbally the terms of our submission to leave some time for questioning.

Let me begin by saying the council represents something over 60% of Canada's retail store trade directly and through our affiliate associations a substantially additional percentage of business.

I'd like to touch on the events of the last year in terms of what happened to the trade in terms of its sales. Nineteen ninety-three was a somewhat better year than any of the three preceding, thankfully, of course, because of the severe casualties our sector has suffered over the preceding few years.

I think some of the improvement in sales was no doubt due just to the improved economic activity in general, but I think we should not underestimate the factor of reduced cross-border shopping, which I think accounted for a significant percentage of the improvement. Of course, when you look at what happened to consumer disposable incomes, it's not unrealistic that a substantial part of the improvement should be attributable to that source.

By sector, the areas which seemed to do best were women's clothing, sporting goods, electronics, household linens, toys, and health and beauty aids. We were not seeing much improvement in major appliances, furniture or menswear until towards the end of the year, when these sectors did show some improvement. That was borne out by the release of the November figures a couple of days ago and we believe from our members that December sales continued that pattern.

In fact, the Christmas season was one of the better periods in the year which, of course, is important to all those merchants who depend so heavily on the Christmas season. One of the more benign aspects was the fact that retailers were not obliged to start discounting so early in the season as they have had to in the recent past to attract any kind of business at all. So margins should be modestly better for the year.

The consensus in relation to the current year is that, absent any extraordinary factors, trade will likely continue to improve, albeit slowly and unevenly. I think we have to introduce a caveat there: If in fact there should be a shock felt by the consumer in terms of significantly increased taxes, I think that could really impact negatively, and very negatively, the very modest level of recovery that we are seeing.

We believe margins will again come under pressure, both because of the substantially increased productivity which has occurred over the last few years and also because of the new entrants into the market with different cost structures, which are obviously going to have an effect.

The improvement in productivity in terms of sales per employee has been really quite remarkable over the last three years. It's something of the order of 30%. Some of that, a substantial part of it, can be attributed to increases in capital investment in the industry. There is the very strongest incentive to retailers to attempt to limit their labour costs, and one of the means of doing that, of course, is by substituting capital for labour. It has negative effects, of course, in terms of the general employment situation and it points up that whatever extra costs are loaded on to the labour component of our employees' cost structure are very likely simply to exacerbate that trend.

Disappointing last year was the fact that, first of all, Ontario tended to lag behind the national average in terms of sales. Within Ontario, Toronto was below the provincial average in experience. I think it's realistic to recognize that other provinces are not standing still. They're taking note of the comparative unattractiveness of Ontario for investment and they're mounting campaigns to try and attract more business which might otherwise settle here.

Let me move on to policy issues. First, in terms of fiscal policy, those of you who heard us last year heard us reflect on the problems we foresaw with the perpetuation of the high-deficit situation. We note, just by way of contrast, that within our trade many of our members have been obliged by the circumstances in which they found themselves to very sharply cut their expenditure and particularly their employment levels. They didn't have the option of looking at a gradualist approach. I mean, most of their situations were so severe they had to act very sharply.

We contrast that with the situation that government has been taking towards a more gradualist approach to deficit reduction. I think their early evidence is that this approach is not in fact working and I guess Mr Laughren's indication that the revenues were going to be \$1.6 billion lower than expected seems to signal that we

can't hope to get out of our problems simply by tax increases, that we have to look in a much more substantial way to the cost side of the ledger, recognizing that the social contract was a move in that direction but that, in our view, it wasn't a move of nearly the significance that is needed to get us back on a reasonable keel.

Another feature of the increased taxation, apart from its impact on sales, is its effect of driving people into the informal underground economy. We made a presentation on that subject just recently. It is a serious problem in our industry, particularly of course in relation to tobacco, but it has its parallels in other sectors of the economy.

We would like to say a word or two in relation to the commodity tax situation. From the earliest signs of the federal government's indicating it was going to get into the commodity tax business, we urged most strongly that we look at the feasibility of achieving harmonization between the federal and the provincial systems. Unfortunately, that has not happened and we bore the brunt, I guess, of that failure during the early period of the introduction of the GST. That damage still lingers.

We were pleased that the Fair Tax Commission came out so strongly in favour of the harmonization option. We are urging that option on the federal governments. Similarly, we're urging it on all the provincial governments, including this one. When we say "harmonization," we mean not the kind of quasi-harmonization that Quebec has attempted but a real harmonization of the essentials of the tax. We don't have to have the same rate across the country, but we would very much hope that there could be an central collection system and as uniform a base as possible.

On the issue of job creation, as I said, we think the recovery will be characterized by slower growth than we've experienced before. The payroll-related taxes and expenditures with which employers have to contend are undoubtedly having an impact on the extent to which they're able to re-employ people.

The increases in unemployment insurance, the Canada pension plan costs and workers' compensation rates are all of strong concern to our industry, which is so heavily labour-intensive, in fact accounting for something like one in eight of the labour force.

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We do argue strongly against any increase in these employment-related payments and taxes. Particularly, we'd like to comment on the situation in relation to workers' compensation. I think everyone recognizes Workers' Compensation Board finances are in state of crisis. We understand that it's unlikely that the recommendations made by the management members of the advisory council are going to be implemented. To us, if that is in fact the case, that is a very sharp disappointment. We think employers need the reassurance that these costs are going to be under control. At the same time, we don't think this is the time to be extending benefits. It has a very strong negative impact on the employment climate in the province.

Members of the committee will be well aware of the problems associated with the reapportionment of property

taxes in the Toronto area. As you can understand, we as an organization haven't taken a position on the interplay between the various types of retailer involved in that reapportionment because all of them are our members. But the issue does point to the level of property taxes in general.

We were made sharply aware of the discrepancies between the level of property taxes borne either by owners or tenants in the Ontario region compared with those in the competing states in the US in the study that we did during the height of the cross-border shopping problem. In fact, there are huge anomalies in that with the Ontario levels of tax two and three times what are experienced in the US, and occupancy is such a big element in retail costs that of course these have a severe impact on the competitiveness of Canadian and Ontario merchants. We've got a temporary reprieve with the value of the dollar. We can't expect that's going to remain for ever and I think we have to take into account the punishing effect that these tax levels have.

We also make a point in relation to the harmonization of payroll taxes. In order of magnitude, it's not nearly such an important issue as the ones that we've just been commenting on, but it is a substantial anomaly and an irritant and we suggest it be addressed.

I'll stop at that point, Mr Chairman, and we'll be happy to respond to the committee's questions.

Mr Phillips: Thank you, for a thoughtful presentation. In terms of the number of people working in the industry, the numbers that I have for employment in what's called trade—I gather that's the wholesale-retail trade—in 1990 were about 850,000, in 1993 810,000, which looks like about 40,000 fewer people, about a 5% drop in the level of employment.

Mr McKichan: Behind these figures is the drop in the number of hours worked. I'd suggest that the actual number of hours worked is very much larger than that, with both considerable substitution of part-time for full-time employment and substantial reduction in the number of hours for part-time employees.

Mr Phillips: That's a very good point because I think there has been a big shift in Ontario from full-time to part-time. Again, on the job side, as I look at your industry and as your document points out, you're moving very heavily to kind of productivity improvements, for lack of a better term. I see some of the big retailers that have opened up—Aikenheads and others. Should we anticipate a continued kind of trend, as we've seen here, of a total reduction in the number of hours worked in the industry?

Mr McKichan: I think we may have for a while bottomed out just because of the low level of sales in the last few years, but the longer term trend is in that direction, with more business flowing into larger specialists, and as a result more efficient types of operation which, generally speaking, have a much different employment profile in terms of staff.

Mr Phillips: To change subjects, my sense right now is that the focus, both federally and perhaps provincially, on the tax side is on the tax expenditure side because that

doesn't sound like tax increases. Is there anything on the tax expenditure side that we should be looking at, because if there are some inefficient things on the tax expenditure side, that can be just as effective in some respects as cutting spending.

Mr McKichan: In terms of the corporate taxes, of course retailers are not significant beneficiaries of any tax expenditures. They tend not to be in the favoured category, being a service industry. I really can't speak with authority in relation to the corporate side.

In terms of the personal side, I guess there are things that could be done that might encourage spending over saving, but I don't know that in the longer context these are necessarily good strategic moves to make when you look at the potential obligations for retired members of the population and so on.

Mr Phillips: The harmonization of the GST and PST—and Gary will appreciate we've had conflicting kind of advice from business groups. I think your strong advice is to find some way to harmonize.

Mr McKichan: Absolutely.

Mr Phillips: What about whether it should be visible or invisible?

Mr McKichan: We know that within our trade there are two schools of thought on that. Generally speaking, people who are selling big-ticket items, particularly if they're in competition with outlets in the United States, would prefer to expose the tax. People selling smaller valued articles, repetitive purchases, feel they'd rather include it. That's a generalization, but that's the general approach.

We are actually planning to do a survey of our members with some definitive questions on that, which we'd be happy to make available to you in the course of the next few months.

Mr Phillips: What sort of cost savings for your members might be involved if it was truly harmonized in the most efficient way?

Mr McKichan: They're very different by size of member. The greatest burden tends to be experienced by the smaller retailers, because they don't have the facility to systemize things and they're less sophisticated as a whole. I would guess it would be under 1% of sales, of course, but these are significant. Even under 1% can amount to many millions of dollars in an industry the size of ours with the sales volumes that it has. The savings would be very significant.

Mr Peter Woolford: The other thing that our merchants notice is that the existence of two competing taxes at the point of sale really annoys the customer. They find that's a continuing irritant in their sales processes in the store, and they are concerned that what it is doing is discouraging consumers from doing some shopping. They find that just the presence of two conflicting systems is still very much a discouraging factor for people in terms of making purchases.

Mr McKichan: And sales are still being lost as a result of that. People get to the cash register, forget about the existence of the GST, and then discard the merchandise when they're confronted with that.

Mr Carr: My question was regarding the WCB. As you know, the problem with the increases with the workers' comp are not unlike what's happened in other areas as well in that they say there had been a problem with revenue, but there isn't; there's a problem on the expenditure side. Ironically, it's the injured workers who are going to be on the hook for it. Nobody ever thought that this government would come in with a social contract, and when the WCB runs out of money, make no mistake about it—and the government should know that the people who are the hook for it are the injured workers, that there's no money to pay them—they're going to be the ones. So it's in the interest of not only business but also injured workers, because we are in one heck of a mess. They see the problem as trying to increase the amount on the employers of the province. What will it mean if there are any more increases in things like that?

Mr McKichan: I'm going to ask my colleague to respond to that.

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Mr Woolford: I don't think we can quantify it till we've got some sense of what increases would be in order, but it's quite clear from the response of the retail trade to tough times and to changing technology that they have been steadily reducing hours and amounts of employment. As their other employment-related costs go up, it simply adds pressure on the expense side for them to cut those hours further and gives them an added incentive to save even more money by investing ever more heavily.

As Gerry said when he was asking Alasdair about the employment in the trade, moves in this area will simply further ensure that retailers are that much more reluctant to hire additional people as sales come back. In a sense, what we're doing is building a job-shedding machine every time the government increases payroll taxes.

Mr Turnbull: I'm sorry I wasn't here for your presentation. A question which is very current is this question of property tax appeals by the large anchor tenants in the major malls of Toronto and the impact it will have on the other retailers in those malls.

It seems to me—and I'm not trying to lead you, but I'm just sort of giving you the benefit of my own view at this moment—that the fact that the landlord advances an inducement to get an anchor tenant into a building is the landlord's affair, quite properly, and government shouldn't intervene in that, but the idea that in some way that benefit should be further magnified by property tax policy is fundamentally flawed.

I believe that you represent both large and small retailers. Could you comment on this situation.

Mr McKichan: As your question assumes, we find it difficult to take a position on the principle of how taxes should be allocated among various categories of tenant. We also recognize that the increased taxes which small retailers are facing, for many of them, will be the last straw that breaks the camel's back. I think there's no doubt about that.

The point we made in our submission is that while we

can't speak to that division question, we can speak to the question of the level of property taxes in general, which as I indicated are something like two or three times those that are experienced by our US equivalents just across the lake in Buffalo. That's where we, as an organization, have to concentrate our fire and try to achieve some redress of that situation.

Mr Turnbull: As a landlord myself, and also my wife having a retail business, I completely agree with you. I think one of the problems is that most people don't realize the level of taxation that retail establishments are attacked by. One of the concerns I have is making sure that the government understands how serious this is in terms of the ability of a lot of retailers to survive.

Mr McKichan: Absolutely. Every day, these days, in our office I'm getting calls from independent and small-chain retailers that have survived by hook or by crook the last few years, and now it looks like they may get the coup de grâce as a result of this taxation situation. It's very, very serious.

Mr Turnbull: Have you had a lot of correspondence from these—I don't want to call them small retailers—the non-anchor tenants with respect to the likely implications of this?

Mr McKichan: It hasn't been correspondence, but it's been frequent telephone calls. They are very, very concerned about it.

Mr Sutherland: I have a couple of questions and a comment first. It's unfortunate that Mr Carr doesn't remember that his government didn't address the question of how to have appropriate financing of the WCB; we probably wouldn't have this unfunded liability at this stage if his government had.

Mr Turnbull: The ball's in your court now, Kimble.

Mr Carr: I couldn't even vote when the Conservatives were in last time.

Mr Sutherland: Some people have some very short memories. At any rate, two questions. First of all, I keep hearing the cross-border shopping numbers, the number of trips going across, are down, but I'm still hearing numbers, four million and 4.5 million. Do you have any indication as to how that compares to, say, before this problem started, if we compared it to, say, 1987-88?

My second question is, we've had a discussion here about property tax. The Fair Tax Commission recommended that over a five-year period we take the education portion of property taxes off the property tax base and put it on to the income tax base. Can you give me some sense, from your organization's standpoint, what you think the economic impact is, whether there's a net benefit to your members by having that occur?

Mr McKichan: Let me answer your first question first, if I may, in terms of the cross-border situation. We have not done any recent surveys of what average expenditures have been, but at the height of the cross-border shopping situation, we were talking about something like \$5 billion or \$6 billion of lost revenue. We believe that in the last year or so that has been cut probably by 40% or so. So while it's still higher than it was before the late 1980s, it's very sharply down from

the recent past. The number of border crossings is not down by the same extent, but a lot of these are simply for a fill-up of the gas tank. Some of them, of course, are not for shopping purposes; they were visiting friends, relatives and so on.

Responding to the second part of your question, we have not yet had an opportunity to completely consider the Fair Tax Commission's recommendations. I know there are pros and cons in relation to that question. Obviously, it would be helpful to get relief in terms of the burden on property tax. Conversely, there's an impact on disposable income of consumers, which also affects retailers. We haven't had an opportunity to make an assessment of that rather intricate calculation.

Mr Woolford: It's my recollection, and correct me if I'm wrong, that the relief on property tax would only apply to householders; it would not apply on the commercial base. I think that's where they came out.

Mr Sutherland: It would say you would go to a different tax form for it.

Mr Woolford: But there would be no tax relief for retailers on their property tax or their property-related business tax.

Mr Sutherland: But it also said to get rid of the municipal business tax as well.

Mr Woolford: Was it on the municipal business tax as well? I didn't think it was.

Mr Phillips: I think it said on residential property we would remove education from property tax and put it on income tax. On the commercial business property tax, the change would be that it would be province-wide. The same money would be raised, but it would be pooled provincially.

Mr Woolford: So in fact there would be absolutely no relief for the retail trade at all.

Mr Sutherland: I'll have to go back and look at the other recommendation. I think it said, though, including getting rid of municipal business tax, which was some concern too.

Mr Wayne Lessard (Windsor-Walkerville): You were very critical of the government's efforts to reduce spending. I can tell you that as the government caucus we agonized over a lot of the cuts that we made. I'll admit that even though we felt that in some cases we were being cruel, it really seemed as though we were still picking around the edges. Really to make some substantial cuts would, I think, change life as we know it in Ontario.

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You're in a business that would really see first hand something other than a gradualist approach in two ways. First of all, significant cuts would reduce the amount of money available to spend at retailers. Secondly, it would really impact on consumer confidence and people would be more willing to save than to spend. So I was a bit surprised by your suggestion that we should really cut deeply, knowing that. I'd like to know what your list looks like to reduce spending significantly, in your words.

Mr McKichan: In our view, the choice is not

between a gradualist approach and a sharper approach; it's whether the decisions to cut and what to cut will be made by our governments or will be made at the direction of some external international agency. Those, in our minds, are the choices we're looking at. It seems to us that it's better that we make the decisions ourselves rather than have them dictated by somebody else.

Certainly, the retail trade, because it's so dependent on the flow of consumer disposable income, would be affected, and significantly. However, we don't see any way around facing that and accepting that because the alternatives are so much worse.

In terms of the areas where the cuts should be, I think it has to involve a whole rethink of what government is capable of doing and what it should be doing. It seems to me it may mean the disappearance of whole departments or the disappearance of whole functions and a complete, radical look at all the services that governments provide. I think we're now in a near-desperation state and I think these are the kinds of decisions that we have to face.

The Chair: I thank the Retail Council of Canada for its presentation.

ONTARIO FOREST INDUSTRIES ASSOCIATION

Ms Marie Rauter: I'm Marie Rauter and I'm president of the Ontario Forest Industries Association. I have with me today Martin Kaiser, who is our policy manager.

I thank you very much today for having the opportunity to speak with you and to discuss some of our concerns and some of our recommendations and how we think you might be able to move forward so that we can better the economy and the wellbeing of all Ontarians.

We represent 21 member companies in Ontario, forest industry companies, everything from the large pulp and paper companies to some very small family-owned operations that have been in operation for four and five generations.

We'd like to address issues that surround the provincial budget and also address some of the recommendations in the Fair Tax Commission as they relate specifically to our industry sector. We would probably have comments on many others, but with the restricted time we'll deal primarily with our sector.

The areas that we'd like to cover: We'd start with the economic state of the industry, also the opportunities that face this industry if we can get some of the foundations together properly, also a new business relationship that we're trying to develop between the forest industry sector and the government, and then we'd like to comment on a few of the recommendations that are in the Fair Tax Commission.

In the presentation we gave last year we discussed three main themes. One of them was the opportunity that this industry has for growth and the ability that it has to contribute to a healthy provincial economy provided that we can eliminate many of the uncertainties that are out there and provided that we can have a favourable investment climate, also the need for the government to contribute to a competitive economic system. As the last speaker was addressing a question by Mr Lessard, we feel that government needs to redefine its role so that its

programs meet provincial needs, not wants.

We need to start asking the question, what do we absolutely need from government, not what can we get from government? I think if we look at those two questions, we can really turn it around and do look at the ministries we have, the services we provide and the way government is structured to provide those services.

There is also a need for government and industry to work together. That is the only way we're going to be able to achieve those goals. There can be a synergy when the two work together. You do not have that synergy when the two work in isolation.

This year we'd like to revisit some of those themes, and I'd like to start by where the industry is today in terms of economic status. You have some handouts and I'd like to have you refer to some of those handouts and some of the figures that are there. They relate to the primary forest industry. They do not relate to the secondary manufacturing and the spinoff effects from the forest industry.

In figure 1 you can see that, after three years of decline, our sales have levelled out in 1992 at \$4.1 billion. That levelling is due largely to increased wood product prices and the continuing drop in the Canadian dollar versus the United States dollar.

If you go to figure 2, you can see that losses continued to increase, to a new record of \$382 million, and that is mainly resulting from the costs of restructuring and poor prices in newsprint and paper products. We are still continuing very low prices in those two sectors. They are about half of what they were five and six years ago.

If you go to figure 3, you can see that the return on capital employed fell to minus 4.1% from a positive of over 7% just three years earlier. That's a real turnaround.

If you take a look at figure 4, you can see in terms of capital expenditures that they fell to \$222 million. That reflects the decreased cash flows that were experienced due to the North American recession. Between 1989 and 1992, the forest industry spent \$1.7 billion on capital programs while cash flows amounted to something over \$500 million.

Figure 5 I think is a telling figure. The impact can be seen in the industry's debt-equity ratio, which deteriorated from 0.45 to 1 in 1989 to 1 to 1 in 1992.

Figure 6: The effects of continued restructuring can be seen in the industry's direct employment figures. They dropped 16%, to 27,900, in the primary industry and 28%, to 60,400, for the forest industry as a whole. That's just since 1989.

The last table is an area where I think the industry's performance is very telling. The area where we did not drop was in payments to government. Payments to government increased to \$756 million in 1992, of which \$424 million went to provincial and municipal governments and their agencies.

We don't have the information for 1993. We just compiled this at the end of 1992 for the previous year. But in terms of the economic state of the industry today, aside from the solid wood industries, which have benefited from improved markets, the pulp and paper industry

continues to face weak markets for most of our products and continuing financial losses.

Notwithstanding, we still think there are some industry opportunities. We believe that the industry that is out there today has survived the worst of the recession and that we will have a recovery, but that recovery will be slow. It will be different from any of the previous recoveries. We are a cyclical industry, but our recovery today will be much slower and it will be much harder. We have made many of the decisions that were required to cope with these changes and we think we are now ready to start taking advantage. We have progressed in many areas.

I'd like to focus on a couple of the concerns that were raised when we gave a presentation last year. One of them was on recycling and the other was on the new business arrangement with industry. Mr Wiseman was on the committee last year, and he raised one of the fundamental challenges facing the industry, the concern with respect to, how is recycling going to affect this industry?

It does present significant issues for our industry, but many of our companies in Ontario have made the decision to put into place the facilities where they will be able to use recycled fibre.

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In 1993, our member companies increased their use of recycled fibre by 25%, 75% over the previous year. That is a significant change. About 13% of the total fibre consumed by our member companies is recycled. You must remember that 13% may not sound very much, but considering that we export about 80% of our product, that is a major component of what we actually utilize in Ontario.

The second issue, and it was one raised by Mr Conway, was that it was time for industry and government to re-examine the principles under which they do business, and that is currently under way. Some of you may be familiar with what we call the Carman exercise—Bob Carman, who was previously secretary of cabinet. He is under contract with the Ministry of Natural Resources to try and develop a new industry-government partnership. One of the driving factors behind this exercise is the government's financial situation and the resulting desire to try and shed some of the government costs. That's why we're here today, and would like to address it and talk to it a little bit today, is that we have been working very actively with Mr Carman, with his staff and with the MNR to identify what are the key issues, what are the potential solutions and can we generate some consensus for the negotiations.

One of the industry's principles in the development of a new business relationship is the need for an improved revenue mechanism, one that is more responsive to the industry's ability to pay. That is, when we're doing well, the people of Ontario should be doing well, because we're using the resources of the people of Ontario, but when we're losing money, to have a system in place that government will share in some of the difficulties that industry is having and so that you will take less from the industry so that we can continue and work through our low periods and be able to be part of the turnaround and

the recovery. Another principle is that the new system must result in decreased wood costs. Industry cannot afford to pay more, so we must find ways together to try and reduce those costs. As the forest industry takes on more responsibility for the delivery and for the funding of various forest management programs, the MNR must then do its share. It must redefine its role, it must reduce its staffing levels and it must contribute to a more efficient and a more effective forest management system.

The Carman exercise does present an opportunity to achieve this goal, but in order to do so government must ensure that the transfer of forest management responsibilities to industry is phased in to allow the forest industry to regain its competitive position in the marketplace. The MNR must take significant steps to reduce its costs.

We'd like to now talk about a few of the recommendations in the Fair Tax Commission and I'd like to turn it over to Mr Kaiser.

Mr Martin Kaiser: Over the next few weeks, the Treasurer will hold forums on tax reform and will probably address many of the issues raised in the Fair Tax Commission's report. The report contains far too many recommendations on which to comment here, so we'll focus on a few that impact the industry.

To open, I'll note that the commission spent little time on taxation on the forest industry and was therefore unable to contribute much to the debate on revenue from crown timber, which is currently being undertaken under the auspices of the Carman exercise and other MNR policy initiatives.

There are a few key concerns, though, and we'd like to start with one of the recommendations, number 54. The commission recommended that the government "increase its reliance on auctions of forest harvesting rights to recover the public value of forest products."

This recommendation should be rejected. The commission noted that forest management agreements are a serious institutional obstacle to the use of auctions and thereby reveal the serious flaw in their approach. In its efforts to enhance Ontario's ability to raise revenue, the commission has forgotten that tax policy is simply an instrument in resource management; it's not an objective to which other policies should defer.

The goal is sustainable forestry. Viewed in this light, we strongly disagree with the commission's assessment of the FMA program as an obstacle. The program has been responsible for much of the progress we've made towards achieving the objective of sustainable forestry in Ontario. The benefits of granting long-term tenure have included significant improvements in forest management and regeneration practices and performance. Through the Carman exercise, we've identified some of the strengths and weaknesses of FMAs, both for government and industry, and are working to develop some solutions.

The commission also recommended that regeneration costs should be deductible from the tax base. While the OFIA agrees with this recommendation, we are concerned with the commission's assessment that, "Investment in regeneration is...more attractive to the government than it is to private operators because the government takes into

account returns such as community stability and regional employment, which are not relevant to the private operator."

The forest industry, more than anyone, recognizes the importance of investment in regeneration. It's the basis for our future in this province. Members of the OFIA take their forest management responsibilities very seriously. Its commitment is illustrated in the OFIA's code of forest practices, which we've distributed to you today, and which we introduced last year and is now being implemented by our member companies.

As far as community stability and regional employment are concerned, one need only consider the experience of the Ministry of Natural Resources' Old Growth Policy Advisory Committee in its meetings in Dryden, Timmins, Sault Ste Marie and Huntsville, where private operators came out in force to voice their concerns for the committee's strategies and their support for community stability and regional employment.

Recommendation 56 stated, "Ontario should revise the system of area charges for forestry to reflect the cost of holding forest land out of alternative uses such as recreation and to reflect costs of administration and forest maintenance."

This recommendation should be rejected as it stands and revised for the following considerations. The OFIA, as it noted in its submission to the commission, supports the concept of user-pay, but this concept must be extended to all users, not just the forest industry. The activities of the industry create benefits throughout the province, both directly and indirectly, and these activities are often compatible with and benefit other users, including hunters, fishermen and other recreationists. Charging the forest industry and not other land users is inequitable. A fair system must be established which will assist the provincial government in accurately assessing the benefits of costs, including opportunity costs, in all alternative uses, not just forest management.

The final recommendation I'd like to address is one that impacts not only the forest industry but manufacturing in general. The commission recommended that, "Ontario should eliminate the bias in the corporate income tax against income generated in service industries by removing the preferential rate for profits from manufacturing and processing."

The Treasurer should reject this recommendation. Under the current tax system, both the service and manufacturing sectors pay income and capital taxes. However, the capital-intensive nature of manufacturing industries, particularly the pulp and paper industry, makes this tax a greater burden than on service industries, which generally are not capital-intensive.

The lower income tax afforded manufacturing industries is not a bias against service industry income, but a reflection of the capital structure of each sector and the greater tax revenues generated from the capital tax on manufacturers.

Government must not forget the role of the primary manufacturing industry, including forestry, as the underpinning of the provincial economy. This is true not

only in northern Ontario, where the forest industry is critical, but also in southern Ontario, where many of the secondary manufacturing and service industries that rely on our resource industries exist.

Ms Rauter: In conclusion, I'd just like to reiterate some of the key points.

The forest industry has a tremendous opportunity to grow, to contribute and to continue contributing to a healthy provincial economy, but it needs government to do its share by becoming more efficient, taking a hard look at its costs, at its mandate, at its role and by working together in partnership with industry.

The Carman exercise presents an opportunity to create a more efficient and effective forest management arrangement in Ontario that will benefit not only the forest industry but also the provincial Treasury and the people of Ontario. But in order to do so the government must ensure that the transfer of forest management responsibility to industry is phased in so that the industry does not lose any more competitiveness and that the MNR must make equal efforts to reduce its costs.

The report of the Fair Tax Commission presents a number of recommendations which would negatively impact the forest industry and the manufacturing industries in general. The government must recognize the need to support the recovery of the industry in Ontario. Additional taxes are not the answer. Reduced taxes will free the capital, will provide the incentives which will ultimately lead to increased government revenues.

We urge all of you to carefully consider the concerns that we've raised today as they relate to the budget, as they relate to the Fair Tax Commission, but more importantly, how they relate to the future viability and economic recovery of this province.

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Mr Carr: Thank you very much for a fine presentation. I was interested in your assessment. You talked a great deal about taxation and what needs to be done in that area. As our critic for Economic Development and Trade, I spent some time going around and speaking to large and small businesses, hearing what they see as the major problems, and you hear everything. You hear taxation, you hear the overall government spending, you hear WCB, you hear employment equity, you hear the legislation, you hear Ontario Hydro, and the list goes on.

If you were to give us a short list of the things you would like to see, and not with recommendations, but what are some of the major ones of some of the ones I mentioned, or there could be others? What are some of the things you would like to see the Ontario government tackle? You may as well forget about the taxation because you've mentioned it a great deal. But on some of these other ones, is there anything else you would like to see?

Ms Rauter: The WCB is a real concern because it's just a growing liability. We're concerned for the workers because we would like to see as much of the money as possible spent in helping the workers. You've got administration costs, you've got unfunded liabilities and you've got a growing concern and we don't know how you're

going to come out of it.

We really think that industry, labour and government need to put their heads together. I know you've got the Premier's Labour-Management Advisory Committee and we understand there are some concerns there in terms of both sides coming together, but they must come together and we must address that issue.

We take a look at some of the costs that we see coming out of the Workplace Health and Safety Agency. We really think that you need to start prioritizing some of these things and addressing them.

The one that we're pleased to see is being looked at, and is not there yet but is starting to come under control, is Ontario Hydro and energy. I think we have now surpassed mining and are now the largest energy user, and so the cost of energy is a very major cost component.

Those are some of the large ones. But the list you talked about is the problem. It's the cumulative effect. Some people will say: "Well, that really isn't the killer. That's only costing you a few dollars. Gee, that program over there is only costing you a few dollars." It's when you start piling one on top of the other and you take a look at the total amount of taxation and then you take a look at the kinds of tax structures we have in other jurisdictions.

Many of our companies may be Canadian-based, may be Ontario-based, but they do operate in several other jurisdictions. Because we are a large capital expenditure industry, when those boardrooms sit down, they take a look at where it's going to be most effective and most efficient and where they're going to get their returns for their investments.

What we're starting to find in some instances is that those investments are not being placed in Ontario, and we need to keep them in Ontario in order to keep our productivity up. In order for us to compete in that global marketplace, we need to have those continuing capital investments in Ontario. You can see by that one graph where they've been declining over the last three or four years. If our capital investments decline, our competitive nature declines. So we've got to get those back up again.

Mr Carr: With regard to the WCB, because that has been mentioned, there are many things that need to be done. All political parties did it. They appointed chairmen based on politics and I think that was wrong. The Conservatives did it; the Liberals did it; the NDP did it. We should get somebody in there with an insurance-type background.

Some of the things that I think need also to be done are reducing the benefits. That isn't politically popular with the public and injured workers lobbyists, but I think the injured workers have to realize that if they run out of money, there's going to be no money for them. The cheques aren't going to come if we hit the road. I don't think a lot of injured workers realize that.

Other jurisdictions have done it. It's not political. New Brunswick, with a Liberal government, has done it. The Conservative government in Manitoba has done that. I think they've scaled it back to 80%. It's difficult to talk about cutting back things like that, but as you know, the

only alternative is to increase the rates, which is going to kill more jobs.

A couple of things I suggested were bringing in an insurance person to run it and scaling back the benefits. Would your industry support that?

Ms Rauter: We submitted a brief a couple of years ago and one of the suggestions was that the benefits be cut back to 80%. I think that is not that far different from the social contract the NDP has tried to put in with its own employees. Is it better to lay some people off and have no income, or is it better for them to have a few days off without pay and keep everybody employed? I think you might use that same rationale for the Workers' Compensation Board because it's a little pain for a lot of people, but it's not a whole lot of pain for any person.

Mr Sutherland: I must tell you that the number of people who come into my office regarding WCB may not agree with that last assessment. I'm glad to see Mr Carr proposing an insurance executive. It implies that he's now finally understanding that the Workers' Compensation Board is set up on a premium basis as an insurance system, not as a tax system as he constantly puts forward.

Mr Carr: As a monopoly too.

Mr Sutherland: I was very pleased to see that you did not put it forward as a tax, that you put it forward as a cost to employment, which it is. But if we understand the history, of course, and remember what occurred, the reason we have a Workers' Compensation Board is that workers gave up their right to sue in the early 1900s. They gave up the right to sue for negligence on the part of employers in exchange for having some type of compensation system, and it worked out to be an insurance system on premiums. I think we all understand that there are problems with that. I do appreciate the fact that your organization has not identified it as a tax, as many other organizations and as members of the opposition, particularly the third party, continue to do.

You mentioned taxation. You would like lower taxes. I think most of the organizations that have been in here have asked for lower taxes, understanding the financial situation that likely there are not going to be significant tax decreases to the point that many would like.

I was wondering about your point about, as the forest industry makes profits, so should the province; likewise, though, when things are difficult, it can't all be on the forest industry. My sense and what we're hearing more and more is that people are concerned more about the mandatory taxes they have to pay outside of their profitability. I guess I am wondering if your industry, then, realizing all the difficulties and that it may not get significant lower taxes, would like to see the taxation changed from mandatory taxes that you have to pay, no matter what, towards taxes that are more defined towards profitability.

Ms Rauter: Where we're looking is a very specific area, and it's called stumpage. As a resource industry, we are very dependent upon the people of Ontario and the government of Ontario for our raw resources. We are dependent upon Ontario Hydro for energy and we are dependent upon the crown for the timber. It's very

different from the situation in the United States, where 90% of the land is privately owned and a company can go to different people and bargain for getting wood. We can't do that in Ontario. We can only go to the government.

How do we determine fair value for the timber that we harvest? It's done on something called residual value. Currently, there's a formula in place that as market prices go up, so does the cost of stumpage. We're suggesting a little revision to that formula, because what we're finding is that the base is fairly high and that as market prices go up, it goes up in a relatively level curve. We're saying drop the base considerably, but steepen that curve so that as market prices increase, instead of just going up a little bit, they would go up considerably, but similarly, when market prices dropped, stumpage would drop considerably. What we're finding is that although the current formula reflects market prices, it does not go up and down enough in terms of the change in the pricing system.

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Mrs Elinor Caplan (Oriole): I was very interested in the graphs that you presented and also some of the very positive and good advice that you gave the government about your willingness to work in partnership with government. I thought it was an excellent presentation.

The fact that the total payments to government haven't declined: You make a very good argument for the kinds of sensitivities that the government and in fact all legislators have to have to the impact of the kinds of levies and fees, and not just taxes. We sort of assume that our taxes are progressive and that the more you earn, the more you pay. I must admit that your table really did take that message home.

Ms Rauter: It's even more telling when you take into consideration that we've had reduced employment along with that.

Mrs Caplan: I don't really have a question. Most of the questions I had were asked by the other presenters, except I would ask about your optimism. You've talked about the need for confidence and stability. Your industry, you say, is one that you think can make it. You've gone through some pretty rough times. I was encouraged by your sense of optimism because I have a feeling that you're fairly realistic.

I very much support the efforts of Bob Carman. Really, what he's attempted to do is to change some of this which is on your table that shows how your payments to government have not changed despite loss of employment, loss of markets and loss of profit.

Ms Rauter: Some of our optimism stems from the fact that we have a tremendous natural resource in this province, and I don't think a lot of people recognize that resource. If managed appropriately, it is here for ever. You will hear a lot of people saying that if you cut a tree, you're going to have a desert and you're not going to have renewal and a whole bunch of other things. That's why we put out our code of forest practices. If you take a look, you will see we had a native representative on there. We had environmental representatives on there.

That has been very well received by the general environmental community.

We can be here for ever and we can contribute. We have a good labour supply. We have very committed companies. Many of them started in this province and have helped develop this province. So we have that optimism because we think we have the foundations if we can get all the pieces put together properly. Often-times, if you take a look at prognosticators when they talk about economic recovery, it's on housing starts and it's on the lumber industry. How we go often is how the economy of the country goes. If you can make us profitable, you will be profitable, the province will be profitable, and you'll be able to provide the social services that the people of Ontario need. If we're going and we're making money, the government is getting money.

The Chair: Our time has expired. I thank the Ontario Forest Industries Association for its presentation.

DRI CANADA

The Chair: The next presentation is by DRI Canada. Mr Robert Fairholm, you may proceed.

Mr Robert Fairholm: I'd like to start by thanking you for inviting me here today. I'll make some general economic comments about government spending and taxation in general and also put it into the current economic context.

Before you change or alter the tax system or look at what areas of spending to adjust, it's important to get beyond the near-term fixation of the budgetary shortfall. To really help the province, we have to focus on the medium term, and medium- to long-term growth is helped by strong machine equipment investment, strong government investment, a high level of education and a functioning incentive system; also, low levels of taxation help.

On the first chart on my handout—I presume you all have the handout in front of you—you can see that over the last 20 years those countries which have a high level of taxation relative to GDP tend to have slower growth. If you look at all countries in total, there's no obvious discernable relationship, but if we break it out into two different groups, which is done on this chart, the relationship becomes more obvious. It's important to make this distinction because it's not just simply the level of taxation in the economy that's important, but also what you do with the money that government collects.

It's notable that the countries on the lower tax line have not necessarily had strong growth, because those countries have had a lot of expenditures in areas where it doesn't produce productive resources. For example, in the United States, they have very little spending on investment by the government sector and also they tend to have very high levels of defence spending. This is common among what I call the low-taxed nations which have also had relatively low growth.

This emphasises the point that it's not simply a level of taxation in the economy, but also what government spends the money on. I've done it for other articles. If you look at government spending in the Canadian economy or across OECD countries relative to growth in the long haul, you find that in eras in Canada where

we've had strong government investment expenditure, we've tended to have relatively fast economic growth, and across OECD countries, those countries that tend to invest more tend to have stronger long-term growth.

Part of our problem in Canada has been a rapid increase in expenditures, but not of the right type. We've gone far more into current consumption. That's illustrated on the next chart on your handout, where we can see that up to 1975 all government deficits were accounted for by investment expenditures, both in gross terms and in net terms. Since then government deficits have sky-rocketed, but the level of investment by government has not. In net terms, it's been relatively flat. In terms of its share of the economy, it's dropped quite considerably. This essentially is limiting our prospects for growth in the future by mistakes we've made in the past.

Part of the message is that not only do you have to ensure that the tax system is fair and equitable, but also that the money you collect is spent in the areas which encourage long-term economic growth.

Of course, the level of saving or dissaving that the government sector in general has does, in my view, influence real interest rates. Certainly, you can find some economists who do not believe that, but if we look at the next chart in your handout, there is a high degree of correlation between the level of deficit relative to GDP and our real interest rates. So as we tend to spend more, especially when it's for non-productive or long-term, capacity-increasing terms, it tends to push up the long bond rate. This diminishes growth in the economy and also retards investment by the private sector and has led us into the fiscal mess we're in currently.

In other areas, I think it's critically important that we move to correct the malfunctioning incentive system we have in the province and in the economy as a whole. One of the most obvious manifestations of this is the whole income support system. Currently, in Canada, we're spending \$94 billion to support individuals through a variety of programs, and in my view it would make more sense to have one system delivered by the tax system with a negative income tax system or a guaranteed annual income system to eliminate the welfare trap that has been well documented of late. That's one area of improving the incentive system in the labour market.

I would also suggest that you don't increase taxes or premiums in areas which increase the cost of labour. There's been a huge and increasing gap between the cost of labour and what labour takes home in the pay packet. In real terms, real take-home pay per worker has been flat since about 1978. The cost to business has been rising rather dramatically, so there's a huge, yawning gap between the two, and this is one of the causes of the lack of job growth in the economy currently. I would also suggest that you try to avoid increasing taxes in areas where there's a direct disincentive to hire employees.

1520

In terms of some of the other areas of expenditure, certainly I am all in favour of a strong level of expenditure for education. However, Canada leads the OECD in terms of educational expenditure and we don't seem to be getting much bang for the buck. It's not so much a matter

of how much we're spending in that area since it encourages long-term growth, but there must be areas to improve how the education system is functioning.

Certainly in terms of health care—the other big envelope—there has to be reform. I wouldn't characterize it in terms of user fees, because that's not really reform of the system. There has to be a change in the incentive system. Currently, we have a publicly paid, privately provided health care system which is not functioning, to my view, very well, and can function more efficiently if we follow, say, the Great Britain model, where many doctors are put on salary, and also in terms of what they call capitation, where essentially you have a certain number of patients and you're provided money for them, regardless of whether or not they get sick. There's more of an emphasis on health rather than sickness care.

This is not to say that everything in the economy is negative. Certainly, I think the economy is about to rebound. It might be a little slower in Ontario than elsewhere, in part because countries or regions that have had prolonged declines in per capita output tend to have slow rebounds at first, but over time pick up speed. This is shown in the last chart in my handout, where I have looked across OECD countries and have found that countries that have had two successive declines in output per capita, there's only a handful of them, tend to underperform their long-term growth potential for the first four or five years, but then in the subsequent time period, over the next five-year period, they rebound quite smartly.

Unfortunately for the present government of Ontario, this means that the strong rebound will occur after you're out of power, but that's what the evidence across OECD countries suggests might happen, regardless of what you're doing or not doing.

In the near term, I would suggest that we're going to continue to have relatively modest growth performance, particularly here in Ontario, because we've had such a large decline and it has altered the normal relationship. Typically, when you have a sharp drop and you rebound quickly, the economy jumps back. But because we went down and it's been such a prolonged experience, we will not have the same rebound. Profits were massacred and corporations are not hiring people, and you cannot have a sustained rebound without employment. It looks like we're still many months away before we will have a strong enough employment growth to really bring down the unemployment rate, which is where we get the surge in growth later on.

In general, I think we will be seeing an improvement in our fiscal position over the next five to 10 years, but I don't see a dramatic improvement in the near term from the economy alone. There's going to be little you can do to correct it beyond addressing expenditures. Taxation, personal income tax for example, has risen to such a degree that you are hitting the point where avoidance and evasion are starting to increase rather dramatically.

This can be brought to bear on the tax commission's report about the transfer from property tax to income tax. If you proceed with that, my belief is that you will not get the revenues from increased income tax that you're

going to be losing from property taxes because you're going to be pushing the marginal tax rate up too high. We've already seen a deterioration in the government's ability to bring in tax revenue at the levels of marginal taxation that we have currently. I would think that was a wonderful proposal if our marginal tax rates were 10% and 20% lower, but unfortunately they are at a very dangerous area already and we're playing with fire by pushing them up from these already very high levels.

That is my presentation.

Mr Sutherland: We've had mixed advice from the economic forecasters who have been in here in terms of what should be done. I think everyone agrees we need to get a handle on deficits and that they need to be reduced. The question we're still grappling with in the mixed advice is how quickly that should be done and what impact that has on the economy.

We've had a couple who have suggested, "Yes, you should reduce," but one of the forecasters indicated that he wasn't expecting much more than a couple of billion dollars at the federal level and then a couple of billion dollars, combined, at the provincial level this year, because that was the only manageable amount without starting to have a negative impact. Another one suggested figures similar to that. A couple of others have suggested, "No, we need dramatic decreases in the deficit to really get the problem under control."

What is your sense about what type of approach the government should take as to whether it should be a gradual approach or whether it should be more significant and what the ramifications are for the economy of doing either?

Mr Fairholm: Let me preface my response by saying that I believe in the Keynesian prescription of running budget deficits during the hard times and running surpluses during the good times. Unfortunately, we've just had the former. We've just had the deficits during bad times and smaller deficits during good times, so we've strained our ability to follow the economic advice that I would normally put forward.

On the question in terms of how much it's going to damage the economy if you reduce spending, yes, in the near term it's going to diminish economic growth. You can't avoid it. The only way you can offset that diminished growth prospect is from lower interest rates. As one chart from my handout suggests, if you lower deficits, it should help to bring down interest rates.

We currently are running at a relatively low differential versus the United States and we're running up against a number of different perceptions. One is inflationary expectations. Generally speaking, if an economy has lower inflation, then it should have lower interest rates. But in the Canada-US situation, there is a powerful belief in part of the market that Canadian inflation will edge back towards US inflation over the long term, and that is part of the reason why it's kept our interest rates aloft.

The real question is, how much can you additionally lower the differential versus the United States by enacting a much more severe fiscal stance or deficit reduction? I would think that if you try to cut back too quickly, you'll

do too much injury to the economy. A credible medium-term approach is the best option.

I suppose the most difficult aspect of that statement is the "credible." Governments have said it before. The federal government has been claiming that it's about to reduce the deficit for many years. The credibility of governments has been diminished, so there has to be some way to improve your credibility. Then a medium-term solution will be believed and interest rates will come down.

1530

Mr Sutherland: Just a couple of questions about forecasting. People have traditionally said, "Look to housing starts, look to business and equipment investment as signs of how quick a recovery is going to be." Given that we've lost some of the manufacturing of business equipment here in this province and also that some, I think, in the furniture area, some of the appliance manufacturers—are those good indicators, or as good indicators as they would have been even six or seven years ago in terms of what's going to happen?

Mr Fairholm: The normal indicators are not as useful today as they normally are because the experience we had from 1990-92 was much worse in terms of how long it lasted and how low corporate profits went relative to the economy. In 1992, corporate profits were at the lowest level relative to GDP since 1932.

Normally, when corporate profits rebound, employment follows. This time employment is not following. You can have a rebound in exports, which we have witnessed, and you can have a rebound in production, but if you don't have a rebound in employment the economic multipliers just won't follow, and therefore it will be a stunted recovery. That is exactly what we've witnessed so far.

We have not had employment growth. With 60% of expending on consumption, if you don't have employment growth and there're no wage increases, you cannot have a strong rebound. That is one of the reasons we think 1994 will be another year of modest growth.

Mr Phillips: I don't think you have Ontario's specific numbers in your handout in terms of gross domestic product.

Mr Fairholm: No, I do not.

Mr Phillips: Your national number, I think, is 2.9% for 1994. Is that the right number to look at?

Mr Fairholm: Currently, we're looking at Ontario being that or slightly less. I was actually doing some analysis over the last few days looking at Ontario's situation. The economy has gone flat over the latter part of 1993 and even with a strong rebound it's going to be difficult to break 3%.

Mr Phillips: Of the people who have presented, I think you tend to be among the ones at the lower end of the scale. The sort of consensus seems to be that we're going to see around 3.5% growth, in real growth, in 1994 and then a pattern of 4% growth thereafter. Your view is slightly or somewhat more pessimistic.

Mr Fairholm: I would say that to get to 3.5% growth you'd have to have very strong growth starting from the first of this year, because as I was saying, looking at the

monthly profile of output in the province, it was going at a very slow rate at the end of last year. Just arithmetically, you would have to have 4.5% just to get into the mid-3s for the year as a whole.

I must say that I used to be in the more optimistic camp, but some research I did led me to believe that the prolonged recession we've witnessed will prevent us from rebounding as quickly as we normally do after recession.

Recessions can be characterized in two areas: a short, sharp rebound is often followed by a very fast rebound afterwards. We've had the drop and then it just stayed there for a very extended period of time and this has altered the way people are behaving, and it has altered the way businesses are behaving and therefore my view is that we're going to have a slower rebound than is normally the case.

I also believe 1994 will be the transition year. If you look at some of the monetary aggregates, it suggests that this is the year things should switch over. Because of the length of the decline, in Ontario particularly, how corporate profits went here, it suggests we're going to have a long, slow rebound even with the quickening pace coming out through the monetary stimulus.

Mr Phillips: I think even the more optimistic forecasters on the employment side have all said to us that the number of jobs created will essentially just match the number of people who enter the labour force. I think the most optimistic one says there may be 10,000 more jobs created than people entering the labour force, which is essentially no change.

Mr Fairholm: Okay, but if you add that up, and given what wages are doing, that means real take-home pay is going to be flat in per capita terms if you are down in per capita terms. There's just not a lot of room for consumption to move up.

Mr Phillips: I'm kind of agreeing with you.

Mr Fairholm: Oh, okay.

Mr Phillips: I think most of us here are pessimistic on the employment side. Even after hearing the more optimistic economic forecasts, the employment thing still doesn't really change in any significant way.

I was interested in your comment on income tax and a belief that somehow or other we're at the edge of it, because the cornerstone of the Fair Tax Commission's recommendation is to take provincial income tax rates up by around 25% to recover the \$3.5 billion off residential property tax. How do you reach your conclusion that we are at the edge on the income tax?

Mr Fairholm: My understanding is that the international evidence shows that when you push significantly above 50% marginal tax rate, the disincentive to work and the incentive to avoid and to evade starts increasing. As you push up above that 50% to 55% zone, the incentive to avoid and evade increases exponentially. The farther you push it up, the worse it is.

Mr Phillips: There's some evidence that something funny's happening, as you know, in Ontario where taxes have gone up roughly \$3 billion in the last three years and tax revenue, instead of going up by \$3 billion, has dropped by \$2 billion. There's something going on out

there that cannot be explained just by a weak economy and low inflation, and it may be part of what you say.

Mr Fairholm: Right. It's important to understand that when the estimates are made to determine how much revenue's going to come in, they tend to look at the average return rather than the marginal return, and there's a big difference. When you're pushing the danger zone that we're already in, the marginal increase in taxation from an extra increase of 1% in the marginal tax rate is much less than the average would suggest.

Mr Turnbull: Continuing on exactly the same subject, this question of our having crossed the point at which we're going to have diminishing returns on increasing marginal tax rates, have you looked at some comparisons of other countries and modelled what we would need to do? Should we reduce marginal tax? Would that be the kind of incentive we need?

Mr Fairholm: The ideal from an economic perspective is to tax consumption as opposed to income and savings.

Mr Turnbull: I think it's fairly widely accepted that there should be some reasonable balance between consumption and income taxes, though.

Mr Fairholm: Reasonable balance: That sounds like constitutional talk for anything you want to say it is. In my view, this topic should also be placed beside the whole restructuring of the income support system because you can't just shift from, say, income tax to consumption tax without thinking of what it will do to those people who have lower income levels, because those people tend to consume a greater proportion of their income than people who have higher incomes.

It has to be the whole ball of wax. You have to consider what is most effective for the economy as a whole, but also to ensure that those people who are less well off are helped, that if it's a negative income tax system or guaranteed annual income type of system, the guaranteed income portion of it is improved to offset the negative. It's important to look at the whole thing but, yes, definitely we need lower marginal tax rates. Broadening of the tax base is fine, as long as it's also combined with lower marginal tax rates. It's actually better.

The whole thrust of government policy throughout the world in the 1980s was to lower the marginal tax rate and broaden the base.

Mr Turnbull: In the ideal world you would see, you would get rid of things like UIC and pensions and welfare and all of those things and put it into a negative income tax system?

Mr Fairholm: They all essentially do the same thing: deliver income to people who need it.

Mr Turnbull: Do you think we could probably get a better bang from our buck in terms of more efficient delivery and therefore we'd have more money—

Mr Fairholm: You couldn't avoid it. You have to realize that each one of those programs and all the agencies that are created to deliver money to people are bureaucracies that have to be paid. If you can deliver the same dollar to the recipient with fewer people involved,

it has to cost less and therefore, by definition, be more bang for the buck. The whole idea is to deliver a dollar to somebody who needs it as opposed to deliver it to a bureaucrat to oversee a program. Presumably that bureaucrat can do something else.

Mr Turnbull: I have to say I completely agree with you. I will just point out a slight conflict between Milton Friedman's concept of negative income tax that he put forward 25 years ago or so—you said you were Keynesian; I support Milton Friedman. Keynes is so maligned because as you've correctly pointed out, he said pay back in the good years, which it doesn't seem any government has done, and I think that's the source of all of our problems today.

How do we manage to get political parties right across the spectrum to have the guts to make these sorts of wrenching changes that need to be made?

Mrs Caplan: Oh, that's a good question.

Mr Fairholm: All I can do is hold up the mirror. I heartily suggest or hope that you do this before it's forced upon us by some true financial crisis. I think we avoid the bullet this time, but if we don't correct the problem, the next time it's going to be even worse than we've experienced to now.

Mr Turnbull: Does it all have to be done at once?

Mr Fairholm: Preferably.

The Chair: Thank you, Mr Fairholm, for making your presentation before the committee this afternoon.

1540

ONTARIO HOSPITAL ASSOCIATION

The Chair: The next presentation this afternoon is from the Ontario Hospital Association, Mr Peter Harris, the chair, and Mr Dennis Timbrell, the president.

Mr Peter Harris: We appreciate the opportunity to make this presentation to the standing committee on finance and economic affairs.

When we appeared before this committee a year ago, we had just been informed by the government that it was abandoning its multi-year funding increase approach to transfer payment levels. The multi-year commitment would have provided for a 2% increase for hospitals in base funding levels for each of 1993-94 and 1994-95 in order to match inflationary costs. As you will see in the attached table 1, that would have meant a government transfer level for hospitals in 1994-95 of \$7.64 billion.

As you're aware, this multi-year commitment has now been replaced with the three-year social contract regime. This provides no increase in base funding. Instead, it establishes actual decreases in funding levels. For the hospital sector, this means a reduction of \$261 million per year in base funding. As table 2 shows, this will result in a base funding level of \$7.08 billion for hospitals in 1994-95. The hospital experience to date under the fail-safe provisions of the Social Contract Act has indicated that hospitals have been able to successfully implement the reductions in compensation levels available to them.

We have included a note on the social contract as appendix A and would also draw your attention to several

other appendices and tables which accompany this submission and which cover several areas and statistics that we cannot cover in this specific text.

It is very important for the committee to appreciate the true funding picture which hospitals face today and for the foreseeable future and the environment to which they are attempting to adapt.

It's essential that the public and the Legislature understand that hospitals in 1994-95 will experience a shortfall of approximately \$557 million in previously promised government funding levels. This shortfall is exacerbated by the fact that, as indicated in appendix B, hospitals will have ongoing additional cost pressures relating to inflation, pay equity and pension plan increases totalling \$215 million in 1994-95.

Further compounding the problem is the fact that the Minister of Finance has been unable to give any assurances that the already diminished 1994-95 funding base will not be eroded further.

There are also a number of other possible legislated cost pressures, involving workmen's compensation, employment equity, health and safety, advocacy and consent to treatment matters, and on-call coverage by physicians in emergency departments, which could further strain hospital operating budgets.

We have also included in appendix C a note on capital funding, a situation where once again hospitals are faced with considerable future uncertainties relating to levels of funding to be made available, as well as such matters as the loan instruments to be used and the process for loan application and cost recovery.

Last year when we appeared before this committee, we told you that we clearly recognized the need for managed change within the health care sector, so that the five principles of medicare are preserved. We also spoke of a sixth principle: maintaining and enhancing the quality of patient care. Quality improvement is the major instrument by which hospitals identify opportunities to eliminate inefficiencies and duplication while at the same time ensuring that essential treatment remains available to all citizens.

Hospitals are doing this in many different ways, both locally and provincially. For example, the OHA is working with the Ministry of Health on many projects under the auspices of the joint policy and planning committee, known affectionately as JPPC.

The JPPC, which was developed from a 1991 proposal by the OHA, has made considerable progress in the two years of its existence in addressing issues of quality, utilization rates, information collection and analysis, and planning. There is a common understanding among all JPPC participants that quality information systems are the key to the successful management of hospitals.

In the past year, the JPPC has developed the Ontario Hospital Reporting System User Guide, which is an important step towards the consistent reporting of hospital financial and statistical indicators in accordance with the Management Information Systems Guidelines.

The JPPC has also produced a reference manual for hospitals, Data Elements and Definitions. This manual

forms the basis for the work now under way that will allow for audits of hospital statistical data which complements existing financial auditing practices.

The JPPC is now undertaking a number of other quality-related initiatives such as a review of the hospital-patient complaint process, and recently a report has been published entitled *Moving to Outpatient Surgery: How Do You Compare?*

These are substantial milestones, but we all realize that much more has to be done.

For instance, Hospitals of Tomorrow is an important OHA hospital-visioning project which will be completed this summer following a round of public consultations throughout the province this spring. Documentation on this project was distributed to all MPPs last year. It is expected that the final project report will serve as a very useful contribution to the restructuring of the provincial system and provide guidelines and principles to hospitals for planning, long-range cooperation and decision-making.

As well there are, as you are aware, dozens of hospital restructuring exercises under way throughout the province under the auspices of the local district health councils. These are at various stages of development. Some, such as Metro Toronto, have very clearly articulated goals, time lines and expected outcomes. Others are in earlier stages of development, such as in Brant county. Still others are close to the completion of final reports. Some have completed a public consultation phase, as in Thunder Bay; others have not.

In some cases, such as the recent initiatives by the hospitals in Windsor and Sault Ste Marie, for example, institutions are themselves independently pursuing and effecting many plans for merger, rationalization and sharing of services and management and operational structures.

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From our perspective, all these activities, DHC-sponsored or otherwise, need to be guided by a set of sound principles for restructuring the system regionally and on a provincial basis.

OHA is actively working to formulate such principles through the JPPC and through a two-day OHA board of directors retreat at the end of next month, followed by regional consultations in March.

The central principle should be that any restructuring of services must result in a clear and tangible enhancement of the quality of patient care. Restructuring exercises need to meet certain standards in terms of the collection and the use of need-based planning data; full stakeholder and public consultations; definitive time lines; understandable goals, objectives and desired outcomes; credible methodologies for establishing cost savings; and tools for continuing evaluation of the effectiveness of restructuring initiatives.

We must stress, as we have indicated earlier, the funding pressure on hospitals for the upcoming year will be severe. We are confident that hospital boards, managers, front-line staff, physicians and volunteers will all do their best to maintain the high levels of quality and

accessibility to the system which Ontarians have come to expect. However, the reality is that hospitals will have to manage increased volumes of patient utilization while being funded by government at the level of approximately three years ago.

In January 1992 the ministry proposed an interim target of 850 patient days per 1,000 population as an optimal use of existing services. As indicated in table 3 and the tables following, hospitals have already reduced the number of patient days per 1,000 from 1,100 in 1987-88 to just over 800 in 1992-93. This represents a 27% decrease at a time when the actual number of acute cases treated in the system rose by a full 8%. In fact there are some hospitals which have reduced their acute care patient days to below 650. The ministry indicated that it expected the acute care bed utilization to decline. Our concern is that it is now two years later and the ministry has still not defined a new target. Day surgery cases, as a percentage of all surgery, have in the same period risen from 53% to 66% and the average length of patient stay in hospital has decreased by one and a half days, from 8.7 to 7.2.

I would like to draw the committee's attention to a growing problem hospitals, especially smaller rural hospitals, are facing in providing on-call emergency department coverage. Emergency departments are a vital community service and must stay open on an extended-hours basis, but small rural hospitals have a flow-through volume of patients which is low in comparison to urban hospitals. Yet the departments' needs for primary physician coverage are the same as in urban hospitals. The current fee-for-service compensation system produces an inequity between rural, low-visit-volume settings and urban, high-visit-volume settings. The Ontario Medical Association and the government have been unable to agree that the OHIP pool be adjusted to compensate for this problem.

Alternative physician reimbursement is a necessary addition to the funding of low-volume emergency departments. Hospitals are currently being forced to top up physician income to ensure the provision of emergency services, such as on-call services, due to the inadequacy of the fee schedule. A working group composed of representatives of the Ministry of Health, the Ontario Medical Association and the Ontario Hospital Association has been established to pursue acceptable options for a resolution of this issue. Additionally, the president of the OHA, the general secretary of the OMA and the Deputy Minister of Health have met on several occasions to discuss the issue.

Overall, the hospital share of the Ministry of Health's total budget has declined from 50% 10 years ago to less than 44% today. We realize that the province's fiscal situation will not likely allow for the restoration of the government's earlier promised funding levels. But we do know that without a rational, coordinated, cooperative approach to restructuring, downsizing and reallocation by all stakeholders, including government, it will be impossible for hospitals to manage the major funding and planning challenges which they face.

As the government decreases its funding levels drasti-

cally, hospitals are also being asked to participate and enact changes in the delivery of long-term care, chronic care, rehabilitation services and the provision of laboratory services and mental health and emergency services. In all, there are 16 announced ministry strategic reform initiatives under way, all of which in one or another impact directly on hospitals. As well, hospitals must comply with the ministry's hospital operating plan guidelines and process requirements, which require extensive community, provider and worker involvement in the development of the annual hospital operating plans. These plans must then be reviewed by multistakeholder committees within the hospital and approved by the hospital board before they are forwarded to the local DHC and the Ministry of Health for approval.

Optimal use of existing services we have reached in two years. Therefore, what is the new target? We do not know.

All of the changes and proposed changes in our sector have to be managed in a way which successfully meets the needs of patients, individual communities, regions and the province as a whole. This is the great challenge that faces all of us today.

Hospitals have demonstrated impressive achievements in changing the way patient services are delivered and have made very significant strides towards restructuring the hospital system. However, given the government's funding cutbacks, the increasing utilization demands of the public and the ever-pressing imperatives for structural and technological change, the hospital system is finding it increasingly difficult to preserve adequate levels of quality and access to care and treatment.

This will continue to put increasing pressure on hospitals to meet the demands for emergency care and elective surgery. Staff layoffs will continue, and mergers and even closures of hospitals can be expected.

We urge the committee to give very serious consideration to the impact of decreased government funding levels on patient services and jobs. As well, we ask you to support the need to establish a set of underlying principles to guide hospital restructuring processes.

There are no easy answers to the problems confronting the hospital and the health care sector. We do not pretend to have all the answers, but we are convinced that public policy must continue to be guided by the preservation of the principles of medicare and the quality of patient care. Simply continuing to decrease public funding support for hospitals will not necessarily bring about desirable reforms and restructuring. Cooperative planning and agreed-upon standards of care are needed now. A period of funding stability is also required if reallocation and restructuring are to be accomplished effectively and sensitively.

That concludes our prepared presentation. We'd be pleased to respond to questions the committee may have.

Mr Phillips: I appreciate the OHA's presentation and all the work the staff and the board's put into it. Just a comment on appendix C: I'm a real cynic around the capital funding. I personally think it's a scam designed to move provincial debt off the government's books and on

to your books, and I think you've outlined that well. So I personally share your concern on the capital funding.

Mr Dennis Timbrell: The issue there is that whatever the answer is to that argument, we're concerned that in doing it in this way it has to be clear that the repayment by the hospital is conditional on the continued flow of the funds identified up front by the government for that purpose.

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Mr Phillips: It's a transparent move of \$600 million of provincial debt on to the hospital and school boards' books. That, in my opinion, is clear. As you point out, they have 100% of the obligation theoretically to repay it, but that's an observation.

One of the things I'm interested in is looking at the amount of money we spend on health care in the province, how much of it is funded by the province and how much is funded elsewhere, because increasingly my own judgement is we may be managing the amount of money the province funds but I'm not sure we are looking at the amount of money we spend. One of the questions we've asked the ministry is to give us some information on that.

I saw some federal numbers that indicate a substantial part of health spending is not publicly funded. I see here that the hospitals get about 80% of their funding by the province, and I therefore assume there's a billion and a half or so of money—

Mr Timbrell: That's right.

Mr Phillips: —that the hospitals spend that we would not think of in our traditional \$17.5-billion health spending. I think we're going to have to begin to come to grips with that because the OMA was in yesterday indicating that it is looking at ways of funding its fees outside of OHIP. The \$1.5 billion, I gather, is the right number. Has that, as a percentage, changed at all, the percentage of the funding from the hospitals? I see in here some examples of how it's raised, although, frankly, I go to visit friends in hospitals and I find my parking fees seem to be going up a little bit, too.

Mr Peter Harris: Yes, that's one of the ways.

Mr Phillips: Are we looking at it going up as a percentage of the health care spending? And should we, as a legislative committee, begin to look at health spending separate from provincial funding?

Mr Timbrell: Personally, I would hope that you would look at health priorities and that you would look at the parameters within which we are supposed to be restructuring and reforming the system. It begs the question, when will we know that we've arrived at the point of a properly reformed system? Nobody can tell you because nobody has defined exactly what the standards are and the desired destinations.

But you're right, the share of non-government funding is rising. We have hospitals that are as low as 65% government funding, the balance coming from external sources, whether it's the parking operations or services that they sell to other providers of care—and I'm thinking of dietary and laundry and so forth—or joint ventures with the private sector on everything from research, and royalties on products developed from the applied research

of projects in which hospitals have joint ventures, and the list goes on and on and on.

Mr Carr: On page 70 you talk about staff layoffs will continue, mergers and closures, the hospitals. In terms of actual numbers, do you have actual numbers of employees, or even percentages of staff—2%, 1%, 5%, whatever numbers?

Mr Timbrell: If you look at table 5, these are Ministry of Health projections that indicate that in 1992-93 there was a 4% reduction in paid hours. Most of that was through reductions in overtime, reducing the use of part-time staff, restructuring to reduce night callbacks, week-end callbacks, that sort of thing. In 1992-93, the total number of layoffs was somewhere between 2,000 and 3,000. A reduction of 10.4 million hours, though, of employment is the equivalent, if you want to look at it that way, of well over 5,000 jobs eliminated in 1992-93. In 1993-94, we don't have any numbers yet. We haven't put the midyear September 30 reports through the same grid, but I would think that in 1993-94 we're looking at as great or a greater reduction in pay hours in the system.

Mr Carr: As MPPs, we get lobbied any time there are problems at hospitals now. I had some calls over the Christmas period to help get people into hospitals. It seems to be coming more and more. The question on the public's mind is, what do you see happening in terms of services over the next couple of years? Will they see a deterioration in services, will it be pronounced, and in what areas do you think we'll be seeing them? I'm talking now in terms of the public. What can the public expect over the next few years as a result of the cuts?

Mr Peter Harris: To use the old saw, probably there's nothing as constant as change, and that will be a continuing scenario. The proportion of day patient services and procedures, which they are developing techniques to be able to do very successfully on a day patient basis, will mean a continuing reduction in the number of hospital bed patients. In fact, one of the questions which is fairly widely being discussed is, does a hospital need to have beds to be a hospital, when you look at the definition? If you have a definition on a 100% outpatient basis, then you technically may not meet the definition of having any beds.

So there will be continuing change, but we're committed to ensuring that the quality of care and the availability of care will be there for patients.

Mr Timbrell: If I could take you back to the discussion in the paper, Mr Chairman, about the patient-days per 1,000 population, admittedly this is a target the ministry put out two years ago. They said they wanted to reach that target by March 31, 1995; we met it March 31, 1993. We have communities in this province that are well below the 830 patient-days per 1,000 average. In fact, your hospital is one of them. I've brought with me a list of the 37 hospitals that are basically below 650 patient-days per 1,000, and Oakville-Trafalgar Memorial Hospital in your riding is at 640.

This speaks to a concern we have. Unless we are operating according to the principles of the limbo school of health economics, this is not a game of how low can you go. There have to be some standards. There has to be

some recognition that in communities like Oakville, like Stratford—I was in Stratford the other night at a meeting with the medical staff and members of the hospital board, and they're basically saying that if this policy of across-the-board downsizing continues, they're going to go past the point where they can look their fellow citizens in Stratford in the face and say, "Yes, you will have access to quality care."

I've found that the one question I'm probably asked most frequently by the media and by the public is, "At what point does medicare crack?" and I've always said, "I don't know." I don't think there is a point at which you can say the whole system is cracking. It starts to crack, though, like the ice in the spring, at different places, and clearly what we're hearing from hospitals, from medical staff, from union representatives, from board members in various communities is that this universal downsizing is going too far, too fast.

That's why we ask you to support some stability in the funding. We're not saying add another 1% or 2% back in. We understand the province is broke. What we're asking you to do is make sure we at least stay where we are, as promised, for the next two years, so that we can keep reasonable order in the midst of all this chaos.

Mr Sutherland: I think as soon as the province can get stability in its funding, then maybe we can assure the hospitals of stability in their funding.

Of the savings you've made in the last three to four years, what percentage of that has been due to reduction in administration versus a reduction in front-line staff? Could we save significant moneys in administration costs if we went to district hospital boards rather than all the individual hospital and separate administrations that we have now?

Mr Timbrell: I suspect you could wipe out all the administration in the hospital system and we'd still be short. The issue here is one of, how do you keep the local hospital local? How do you keep it responsive to the individual communities? It sounds to me, frankly, as if what you're suggesting is, "Let's bring in regional government for hospital care." I don't think that would go down well in Oxford county. I know that regional government didn't go down well at the municipal level in Oxford county.

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Mr Sutherland: They came up with their own.

Mr Timbrell: They came up with a unique structure, as they have in Windsor. In Windsor the four hospitals have got together and decided to create two new hospital corporations. There will be savings effected by that. That means that people who presently are in administrative positions—junior, middle, senior management—will be gone. Those are also lost jobs. They're going to be looking for other opportunities, preferably in the health care sector, but they'll be gone.

If you go back over the last two or three years, though, the two groups that have been hit the hardest in the layoffs have been management and nurses. Those have been the two hardest-hit groups in reductions. So there have been significant reductions in management, but the

system has to be managed effectively. You can't let it get to the point where you lose control over what is the largest industry in the province.

But we understand the need. As an association, we do not support striving for the lowest common denominator in health care. We recognize that in some communities the role of our association is to go in and almost play a palliative role to help some of our members gracefully exit the scene, whether it's mergers or closures or helping them to sort out rationalization of services.

The Chair: Mr Harris, Mr Timbrell, on behalf of the committee I want to thank you for your presentation.

COUNCIL OF ONTARIO UNIVERSITIES

The Chair: The next presentation is by the Council of Ontario Universities. Please identify yourselves for the purposes of the committee members and for Hansard so that we can correctly credit you with any comments you might make.

Dr Peter George: I'm used to getting blamed for a lot of things, Mr Chairman, whether I said them or not.

Let me introduce my colleagues. To my left is Dr Ron Ianni. He is president of the University of Windsor and he is the vice-chair of our council of universities. To my right is Dr Jim McAllister, who is senior policy adviser at the council, a senior member of our staff. Sitting behind me is Mrs Patricia Adams, the executive director of our division of external relations. My name is Peter George and I am president of the council.

This is like an annual pilgrimage, and it's nice to see some familiar faces, although I appreciate that there is turnover from year to year. This is one of the most important half hours of our calendar year, because we have an important message to bring to this committee and we hope that message will be taken on as part of your recommendations to government. We believe that this committee has an important role to hear our case and to try to assess the priority of Ontario's universities vis-à-vis other transfer payment recipients.

Our presentation will be divided into two parts. I will begin, followed by Dr Ianni, and then I will offer some remarks in conclusion. Then we'll all try to answer any questions that the members of the committee have.

We have prepared two supporting documents which we present for your consideration. I believe they have been distributed. The larger one, the bound one, is called *The Financial Position of Universities in Ontario: 1994*. This is a volume that we produce annually, and within the next couple of weeks, when it is available in multiple copies, it will be sent to all MPPs in Ontario.

The second is called *Synopsis of the Economic Impact of University Expenditures in 1992*. This is a study that is an update by Professor Atif Kubursi of a study he originally did using 1990 data, which was sponsored for the Alliance for Ontario Universities, an independent advocacy group which advocates on behalf of higher education in this province.

Let me make some brief summary comments on the economic impact of university expenditures. To begin, we have used this information in previous presentations to this and other committees. The fact is that I think it is

important that the committee be aware of how important the universities and their aggregate expenditures are to the economy of this province and to the regional economies where the universities are located. Our universities spend roughly \$4 billion each year, of which about \$2 billion is provided by the provincial government. These expenditures, through a combination of direct, indirect and induced effects, generate well over \$8 billion of total economic activity within the province, so that every dollar of provincial funding for universities is associated with \$4 of aggregate economic activity.

We employ the equivalent of 96,000 full-time staff. We have more employees full-time than the textile industry or the pulp and paper industry or the utilities industries or the chemical and chemical product industries in this province, and if you add in the employment that is generated through the indirect and induced effects of our expenditures, we employ the equivalent of more than 180,000 full-time employees in this province.

These expenditures generate significant tax revenues for all three levels of government. In 1992, the federal government received approximately \$1.9 billion in tax revenue from university-related activities in Ontario, the provincial government over \$700 million and local governments about \$160 million. In effect, the three levels of government received more income in tax revenues from the economic impact of universities than they spent in grants to those universities.

We also illustrate in this study the impact of a 1% reduction in provincial grants to universities. There was a time when a 1% reduction looked to be catastrophic. I wish it were so. I wish we were thinking in terms of single-digit transfer payment reductions. We have calculated the equivalent of the social contract expenditure control plan and budgeted cost increase to the university sector as being equivalent to more than a 10% reduction in our transfer payment once they're all in full impact by 1995-96. You can see what the impacts of those cuts would be on employment in this economy and on tax revenues.

But I don't want to be entirely focused on these so-called secondary impacts of the universities, of the aggregate impacts of our activities as an economic focus or economic growth poll. I want to talk also about the primary contributions, which are mainly twofold: the provision of advanced education, and the provision of research and the dissemination of those research results to our society. Our university graduates and our university researchers make many significant contributions to economic life and these contributions can only become more important in an era of increasing global competitiveness.

The data on the labour market are well known. We have talked about these data on many occasions. It's quite clear from the nature of the workforce and the labour force participation that the importance of high skill levels and high educational achievement as really a marketable commodity. The unemployment rate as of last month among university graduates was barely 5%, less than half of the national average and less than a third of the average for people with only a primary school

education. Everybody knows the apocryphal story of a PhD driving a taxicab or a recent honours graduate who can only get a job in a McDonald's store, but let's think about the aggregate. In the midst of this current recession, it is true that the number of jobs held by university graduates has continued to increase while the number of jobs of those with lower levels of education has declined substantially.

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I cite a recent article appearing in the *Globe and Mail*. Between 1990 and 1993, the number of university graduates with jobs in Canada increased by 308,000, during this terrible recession. The total number of jobs declined by 189,000, and for those who dropped out of school before completing high school, their jobs declined by 651,000. All of the job losses in the Canadian economy have been sustained by those with low levels of education. All of the job growth during the recession has been enjoyed by those with high levels of education, particularly post-secondary credentials.

We can look at those data for Ontario alone, and I present those in the last paragraph on page 6. I'll summarize briefly. In the three years between 1990 and 1993, the number of people in Ontario with jobs declined by 41,000; the number of university graduates with jobs increased by 123,000.

Those university graduates find preferred status within the labour market. They receive far higher incomes than those persons with less academic training—about double the income, in fact, of someone with only a high school education—and they enjoy also lower rates of unemployment. As I mentioned, the unemployment rate for university graduates is less than half of the national average. So a combination: lower rates of unemployment, better job prospects, higher incomes. These are all measures of the private economic benefits received by persons attaining a university degree and an aggregate conducted towards the social benefits associated with higher education.

Our point is quite simple. The more people in Ontario who have the opportunity to participate in university education, the more Ontarians will receive those economic benefits and the better will be this province's economic prospects in the harsh, competitive environment of the global economy. The corollary of that is clear: Ontario's universities should be resourced to provide a high-quality education to all qualified applicants.

I'd like to turn now to Dr Ianni to talk a little bit about the universities' roles in provincial renewal and some recent initiatives by council.

Dr Ron Ianni: When people think of universities, they don't necessarily believe that universities are an engine of economic growth or renewal, but I think on reflection, and certainly flowing from what Peter has already mentioned, they really are a very good investment. They generate economic activity and increased government revenues. As well, they contribute to research and development activity, which is vital to keeping Ontario competitive in a global economy. They provide a steady stream of graduates to the labour force who are successful at gaining employment and who receive above-average incomes. These same people make a substantial

contribution to our tax base.

They do all of this despite almost two decades of declining financial support by the provincial government. At the current time, universities are receiving less for each student enrolled than they did in the 1970s; in constant dollars, about 12% less than they did in the 1977-78 academic year. This took place at a time when funding for schools and hospitals, OHIP payments to doctors, support for community and social services, indeed the cost of programs delivered by the provincial government, all increased substantially. I think chart 1 sets that out in dramatic form for you.

Transfer payments to universities have increased less than total spending by the provincial government in virtually every fiscal year. There has been a continual decline in the share of total spending going to universities. Rarely have transfer payments to universities kept up with the growth of the provincial economy as measured by the gross domestic product. In the current fiscal year, for example, operating grants would have had to be increased by 26% just to bring them up to the level of the 1977-78 year. That's referenced in chart 2.

Universities in Ontario receive lower levels of financial support from the provincial government than do universities in most other provinces in Canada. In fact, Ontario universities are among the most poorly funded in the country. Chart 3 sets that out.

Compared to universities south of the border—in Windsor, I have a rather unique perspective on this with our working agreement with Wayne State University and University of Detroit—our institutions are dramatically underfunded. If you just compare the last 10 years, you will have seen the face of Wayne State University virtually transformed by an increase of state funding. The public universities in the United States generally, going outside of Michigan, receive from state governments less in the way of tuition fees and less from contracts than their respective federal governments. This situation appears to be worsening from one year to the next as American universities continue to receive increased grants while Ontario universities are being cut back. This has profound implications for Ontario's competitiveness within North America.

Of great concern, for example, has been the loss of jobs by Ontario to the southern United States. It is not clear, as generally believed, that the reason for this job and capital flight lies solely in the predominantly non-unionized labour markets and less restrictive regulatory environments of the southern United States. In recent years many of those states, including Tennessee, have been giving their universities the greatest increases in funding in any jurisdiction in North America.

Underfunding has dramatically affected the ability of Ontario universities to perform adequately. Both quality and accessibility have been harmed. Qualified students are being turned away, academic programs have been cut and staff have been laid off, class sizes have been increased, library acquisitions have not kept pace with enrolment growth, and buildings and equipment have deteriorated.

On the research side, for example, the federal govern-

ment has denied crucial research funding to the Ontario universities by shifting much of its funding to the universities in other provinces. Because other provinces, particularly Quebec, have been providing complementary support to federal funds, over the course of the past decade, the proportion of federal research councils' funding going to Ontario universities has fallen from 40% to 33% of the national total. Each 1% loss in this revenue represents about \$10 million in lost income each year for Ontario universities. These are funds which would have supported important research activities aimed at expanding the realm of human knowledge and improving the lot of all humankind.

Ontario universities have already demonstrated in a host of ways the benefit to be gained from a sophisticated research enterprise. For example, through its research efforts, the University of Waterloo has generated the establishment of over 100 companies. Through the university research incentive fund and the Ontario centres of excellence, the universities, the provincial government and private industry have worked in partnership to keep Ontario at the leading edge of technology, train highly skilled researchers, develop new products, keep Ontario-based firms viable, and generate economic growth for society as a whole.

As Mr Lessard is here, let me just tell you that the Ford research and development casting plant in Windsor has been expanded two and a half times, not only as a result of the qualified workforce there but as a result of a working relationship with our department of engineering materials, which has been granted an NSERC research chair, for example, and now that has been designated as the centre for North American Ford Motor Co aluminum casting. I think the expansion to that over the last year has been a direct result of the relationship with the university and the availability of co-op students in material engineering.

The universities have not been sitting on their hands crying poor and saying, "We're not going to try to outline ways in which there can be additional income coming to the universities." In fact, we issued a discussion paper on tuition fees which has received, I think, a good deal of play in the press and some comment from our own colleagues on campus.

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The prolonged underfunding on the part of the provincial government's support has led the universities to propose a series of reforms to tuition fee policies. These reforms recognize that students themselves receive a significant economic benefit from attending university and that tuition fees are quite low compared to other jurisdictions and compared to rates charged by Ontario universities in the past years. Tuition fees charged in Ontario universities have increased less over the past decade than in any other part of the country and in fact have increased less than half as much as in some other provinces. Once inflation is taken into account, they are still lower than they were in the 1960s, for example. I think chart 4 sets that out for you. Compared to tuition fees charged by American universities, those charged in Ontario are truly a bargain.

The reforms proposed also recognize the need for an innovative revamping of the student assistance program, a revamping which will enable more students to attend university. In particular, these proposals address the need to increase educational equity, to enrol more students from groups in society who have been previously under-represented in our universities.

In the longer term, the universities of this province are recommending the implementation of an income-contingent repayment plan which would make student aid more available to anyone in need so that no one with the desire and ability would be denied the opportunity to enjoy the benefits from a university education.

I'll leave it to my colleague Dr George to give you some concluding comments.

Dr George: Two years ago, this committee made recommendations to the government that we thought were extremely positive and extremely supportive. I have in this brief repeated those recommendations. Let me just emphasize the fact that you concluded two years ago that "It is essential that Ontario fund its universities adequately; it cannot afford the economic and social costs associated with an inadequately educated population."

Increased funding from the provincial government and a reform of Ontario's tuition fee policies would go a long way towards redressing the problems brought on by underfunding. Adequate funding of our universities is an investment that pays significant returns in both human and economic terms. If governments fail to provide adequate financial support to our publicly assisted universities, then I think they will be putting at risk a critical component of the renewal and recovery of this province as the engine of the Canadian economy. This was the message, the essential theme, of our COU-sponsored conference on provincial renewal that was held last November 7 to 9, which focused on environmental, social and economic renewal and the universities' contribution to those areas.

A higher level of financial support from the provincial government and a significant increase in tuition fees coupled with an improved program of student assistance will help to create in Ontario a system of universities which are accessible to all qualified students and which offer academic programs of the highest quality. They will be universities which are on the leading edge of basic and applied research, and that research will further the economic growth and renewal of this province. Ontarians have the right to expect no less of their universities and of their political leaders.

We would be delighted to answer questions. In Ron you have someone who has the particular experience of being the CEO of a major university in this province, and I can lend some system-wide exposure to the answers. So we have the complement, if you like, of the system and the institutional perspective here. Thank you.

Mr Turnbull: I was aware of the fact that in constant dollars, in fact tuition fees were less now. Your graph demonstrates that very well. I wasn't aware that it was quite that significant. How do we get this message out to students that they're getting such an incredible bargain? Every time there's any suggestion of any increase of fees,

you have to peel the students off the wall. I've got a child who's just entered first-year university. I'm keen on low fees from a self-interest point of view, but it seems to be one of the fundamental problems that you've got.

If I could just ask a further question, would it not be appropriate, in conjunction with this, for us to completely separate the linkage between students and research programs so that we fund research programs in one way and address the actual student education in a somewhat different way?

Dr George: Perhaps I'll take a stab, Mr Turnbull, and then Ron may want to add something.

I've talked to a lot of students since the discussion paper was issued, both through the media through call-in programs and directly by going to student gatherings and talking to them. I think the crassest answer is that the students realize they have an underpriced commodity and they have a great self-interest in keeping it underpriced.

I think the evidence of that is the continuing high private returns or private benefits generated by the completion of university degrees in terms of the income and employment experience that I've described.

It's interesting because in the last two years there is a student group which has emerged, the Ontario Undergraduate Student Alliance, which has openly espoused increased tuition fees matched by increased absolute amounts of additional government funding. But they espouse increased tuition fees. They see it as a good investment of their own funds. In both their argument and in the materials that we have argued with over the past two years, we have always combined that with improved student assistance programs because there are two legitimate concerns.

One is the burden of debt that's accumulated. I submit the burden of debt is already getting larger, and we have data on that over the last two or three years of the recession, and income contingent repayment is simply a more equitable and efficient way of repaying student loans and of handling the student debt burden, regardless of whether the source of that debt is borrowing for tuition payments or borrowing for living expenses.

The question of the separation of research funding from general operating grants, I think, is a difficult one for us academically and practically in the sense that we believe that research and teaching are joint products, that a good teacher is an individual whose teaching is informed by scholarship and research. As a result, there is a large area of intermixture of the research and teaching function and it comes through small groups, senior students, seminars, through graduate instruction, through research laboratory experience.

One could, I'm sure, devise mechanisms for segregating research costing from instructional costing, but I think that would not be a palatable outcome in the sense that the jointness of the two activities is something that is very important to academics and is something that, I confess, is hard for us to explain to non-academics.

Interjection.

Dr George: Yes, and there have been some institutional arrangements in those cases which have allowed

individuals to recontract their obligations, to increase their teaching loads relative to a publication activity. They're still required to do scholarship, but it is more the scholarship of synthesis and keeping abreast of the literature, if you will, so that it continues to inform teaching. But that is not a general rule. It is something that is done at the margin of institutional relationships and I submit could not be a general rule. Ron, do you want to add something?

Dr Ianni: No, I think that covers it. I guess just one comment. If one were to look at the cost of sending a preschooler to day care for 15 weeks as opposed to sending a student to university, it's just about double to send a child, a preschooler to day care for 15 weeks.

Mr Sutherland: You heard my comment to the hospital association about funding and when our funding stabilized, we could stabilize their funding. I guess the question is, and it's to your sector and to all the sectors, realizing that the funding levels or the government revenues are not going to be increasing dramatically over the next few years, how does the public sector, university sector more particularly now, respond to still providing more with less resources? How do you restructure, reorganize to do that?

Dr George: I would submit that as a system we have been restructuring and reorganizing for 20 years. We are the one sector, along with the colleges and the higher education sector, that has suffered continual decreases in per-client funding from provincial sources over that period compared with the other sectors. It's a new game for many other transfer payment recipients. It's an old game for universities.

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I take for example your comment to the hospital association about administrative costs. We have data, and we have used this data in previous submissions, that show that administrative costs at universities in Ontario are lower as a proportion of operating expenses than in any other university system in Canada. They compare very favourably. We have lean administrations.

Dr Ianni: How do we do it? I'll tell you how we do it. We have a first-year biology class of 480 students. That's the largest we've ever had. In other institutions you have psychology courses of 1,800. We have less books in the library. We have rooms that are really not fit for teaching but we're using. We have equipment which is less good in the university than it is in a number of places that our students are doing co-op internments in.

All of those things are, I guess, indicia of the position we're in. We're trying to do more with less. We don't want to close the door to qualified students, but at the end of the day we're at the stage now where those things are continuing and I guess we're saying to our students, "We either get some more revenue through tuition or the decline is going to increase, and at the end of the day you are going to be less competitive with what you get than people in other jurisdictions in Canada."

Just one last thing: When you've got 480 students, it's not very easy to have continuous evaluation and a lot of written assignments. So what do we do on top of that?

We have an academic writing centre which now has 3,000 clients per term. These are students who voluntarily come to the academic writing centre to do particular assignments and have them corrected. We have three full-time staff. They are not professors. We couldn't afford to have three professors doing grammar and improved writing techniques etc.

Those are the kinds of things that are being done but, let me tell you, at some point your innovation runs out and deterioration sets in. What we're saying is that the investment in a university is a sound investment, and I think, if you go much further, what you're going to say to the students at the end of the day is that this economy is going to have a harder time competing and they're going to have a harder time making the economy compete.

Mrs Caplan: You make a very good case and I'm sympathetic of the need of those students who want to have access to the university. I was told that there are between 2,000 and 3,000 qualified students desiring access who were turned away from universities in Ontario in the past year.

Dr George: No, that's actually an understatement. In the fall of 1992 that number was slightly in excess of 4,000. These are students who have completed six OACs with a 60% average and who are technically qualified for admission but did not receive offers of admission. We don't yet know what the number is for the fall of 1993 admission cycle. We suspect it will be in excess of 5,000. In the 1980s, those numbers averaged about 1,000 to 1,500 a year, so there has been a significant increase.

What's happened is that, just as an aside, we have as a system still taken more students directly from what used to be grade 13, with six OACs, even though it's a tough decision because the compromise is quality of the educational experience, but we have maintained our commitment to accessibility.

The fact is that participation rates are continuing to rise and the desire to participate at university then both for these students directly out of high school but also for the group of mature students, the ones who have gone out and worked for a few years and then are mature student applicants. Those numbers of disappointed have also increased.

Mrs Caplan: I'm very concerned, particularly at a time when there are no jobs for youth to go to, that we're turning away qualified youth who want the opportunity of a university education.

The one thing that I didn't notice, and I am concerned about this also, maybe as we look at innovation and opportunity, rather than just looking at the funding, we also could be examining things such as workload. What's the average number of teaching hours of your tenured professors? I was given a number that was so absurdly low I didn't believe it. I was told it was about nine hours.

Dr Ianni: Depending on the discipline, you would have anywhere from six to 12 hours teaching per week.

Mrs Caplan: For tenured professors?

Dr Ianni: That's right.

Dr George: Let's be careful—

Mrs Caplan: Wouldn't it be possible to ask them to teach one more class to accommodate those kids who need an education?

Dr George: I have answered this question before. The fact is that it takes on average three to four hours' preparation time for each hour in the classroom, and you add counselling time, marking time and so forth. Nine hours a week sounds like, gee, you only work one day a week, but the fact is you add the preparation time and a research load and a professional and community service load on top of that. The data on average workload for faculty members is 60 hours a week, not nine.

Mrs Caplan: How many of the tenured professors actually have outside contracts with industry where they're spending more time than teaching hours in the classroom? Do you know?

Dr George: That's certainly a valid question. We don't know for the system. We do know that all universities have policies on contractual research and prescribe quite close limits on the availability of that time to professors. I think the point is well taken, though, and we are addressing this, when I mentioned the possibility of recontracting for faculty members to do a little more teaching. Those kinds of activities are being explored more and more in our institutions as the pressure of student numbers on available faculty and staff has increased.

Mrs Caplan: It just seems to me that at this time the priority really should be to accommodate qualified youth, young people, who want that opportunity for a university education because of the numbers that you have provided. If we have to look at some innovative ways of doing that, we shouldn't just be looking at the funding side. I think there are some accountability issues here to the community and to the province, particularly at a time when you're telling me you're turning away 4,000 to 5,000 young people.

Dr George: We have some major initiatives on the accountability side I can't discuss today, but I would say one thing. I think there is a significant danger of a misallocation of training and retraining resources, both federally and provincially, because they are directed at the low end of the skills market in short-course training for jobs which have uncertain futures.

My view is that some of those funds at least that are currently earmarked for OTAB and Jobs Ontario Training and CEIC programs should be directed at high-end skills training and retraining, because it is those individuals who will form the cutting edge of the labour force in the globally competitive economy.

Mrs Caplan: Certainly a well-trained workforce is essential for our competitiveness into the future, but I don't think any of the solutions—

The Chair: Ms Caplan, your time has expired. I want to thank the Council of Ontario Universities for making its presentation before the committee this afternoon.

Dr George: Thank you. If any members wish to have additional detail or discuss these issues further, I'd be delighted to come and call.

CANADIAN MANUFACTURERS' ASSOCIATION

The Chair: Our final presentation this afternoon is from the Canadian Manufacturers' Association.

Mr Eric Owen: Thank you, Mr Johnson. My name is Eric Owen. I'm director of taxation and financial issues for the Canadian Manufacturers' Association. With me today is Mr David Brown. He is the chairman of the Ontario tax committee. He's also vice-president, administration, and corporate secretary for Glaxo Canada. The other gentleman with us is Dr Jayson Myers, who is CMA's chief economist.

We're here today representing the CMA, which was formed 123 years ago. The CMA represents all sectors of manufacturing from all regions of Canada. However, the bulk of our membership, 66%, is located in Ontario. The CMA's total membership represents over 75% of the manufacturing output in Canada.

I'd like to ask Mr Brown to make some comments on our initial submission, please.

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Mr David Brown: It's certainly my pleasure to be here today to address this group. Sorry it's so late in the afternoon. I'll try and keep my remarks brief.

My purpose in being here is to present to you a very brief summary of the Canadian Manufacturers' Association pre-budget submission, copies of which have been given to you and a copy of which has also been delivered to the Minister of Finance earlier today. What I wanted to do was to basically bring the same message to this group that we are delivering directly to the minister on this very important issue.

Manufacturers outperformed the rest of the Ontario economy in 1993 and are likely to do so again in 1994, thanks to significant gains in productivity and continuing strong export performance. Manufacturing shipments rose by 8.5% in 1993, attaining record levels by year-end. Production jumped by around 5%. Shipments and production levels will continue to rise into 1994 and are likely to increase by 7% and 4.3% respectively over the coming year.

Ontario's economic performance will not match this manufacturing recovery. In real terms, the Ontario economy grew by about 1.9% in 1993. It is likely to expand by only about 2% in 1994. Inflation will remain low, but unemployment will continue to hover above 10% through most of the year ahead.

Productivity improvements are helping Ontario companies gain market share in other countries, and particularly in the United States. Strong export performance is driving the recovery of both manufacturing production and the Ontario and Canadian economy as a whole. Manufacturers will again enjoy strong export growth in 1994.

Exports are buoying manufacturers' production levels in the face of extremely weak performance in Canada's own domestic markets. The domestic market share of Canadian manufacturers has fallen sharply as companies integrate production and sales activities on a North American or worldwide basis, but domestic demand for manufactured goods also remains depressed.

Three key issues need to be noted:

One, consumer income is being eaten up by interest payments, tax and price increases, with little left over to buy more goods.

Second, Canada's level of indebtedness is rapidly increasing. The economy will slow further as consumers and businesses pay down their debt and as governments struggle to keep their budget deficits under control.

Third, the after-tax profitability of Canadian business remains depressed. Employment and investment activity are suffering as a result.

The cash squeeze has been particularly severe for manufacturers. It takes the average company seven hours and 50 minutes in an eight-hour production shift just to cover its operating costs. Taxes must be paid on top of that. There is no margin left to absorb cost increases, and manufacturers cannot afford to pass cost increases along in the form of higher prices if they want to remain competitive in today's international economy.

Manufacturers are responding to these cash pressures by increasing operational efficiency and improving productivity. They are investing in advanced manufacturing technologies. They must do more. But with their backs to the wall, there is often little option open in the short term but to reduce costs by focusing on payroll and cutting jobs. Manufacturing employment held steady in 1993. There will be few job gains in manufacturing in 1994. Cash flow is unlikely to show any significant improvement.

The majority of manufacturers expect production and sales to increase throughout the coming year, but few expect to see any substantial gains in after-tax profit margins. Higher taxes, regulatory compliance costs and other costs mandated by government are of particular concern to companies across Canada. Unless the cost burden that governments impose on business is significantly reduced, prospects for either investment or employment do not appear very bright.

Ontario is feebly recovering from recession, but the problem of long-term competitiveness remains more pressing than ever for manufacturers on the front lines of the international economy. Companies are taking steps to meet the economic challenges of the 1990s, not against them, to encourage innovation, entrepreneurship, productive investment and industrial growth.

Manufacturing is at the forefront of economic change and wealth creation in North America. In Ontario, a strong manufacturing base is crucial to ensure future economic growth and stability. It is only by enhancing our manufacturing capabilities that this province will be able to generate the wealth required to sustain our standard of living and guarantee an enhanced quality of life for future generations of Ontarians.

Dr Jayson Myers: I draw your attention to the graph I passed around. As Mr Brown quite rightly said, production and sales value are both increasing very rapidly in this in terms of manufacturing. The recovery is gaining momentum, but we're not seeing that passed along in terms of job gains. There are few jobs being created, even in the service industries, to which manufacturers are

contracting out these days. Why? One very basic reason is that many companies simply cannot afford to hire people back into the company, preferring to go to extra overtime, preferring part-time employment—significant changes that are weakening labour force activity.

One of the very important reasons for that, again as Mr Brown has pointed out, is tax increases, increases in regulatory costs. Across Canada as a whole, the latest estimates from the Department of Finance in Ottawa, the Treasury Board of Canada, show that Canadian businesses pay \$75 billion a year in regulatory compliance costs and taxes, all sorts of taxes, like income taxes, property taxes, payroll taxes, consumption taxes and capital taxes. That's a pretty significant cost burden if you were just simply to translate that into the Ontario segment of the economy. It looks like manufacturers in this province would pay somewhere in the area of \$11 billion to \$12 billion in regulatory compliance costs and extra taxes.

I'd like to point out to you that over the past five years, since the beginning of 1989, selling prices of goods manufactured in this country have increased by only about 2%. If it wasn't for the depreciation of the dollar, those price levels would be down by about 8% over that period of time. In many industries that are very important to this province in particular, such as the steel industry, the primary metals industry, we've seen deflation in the area of 35% in terms of pricing.

What we've seen on the other hand, though, are tax increases that are pushing up consumer prices and wage rates, payroll tax increases, capital tax increases and property tax increases and increasing regulatory compliance costs. One of the very important reasons why we've seen jobs being lost in this country and in this province is because of this cost squeeze that is going on. Manufacturers or businesses in general simply cannot afford to employ people if these costs continue to increase.

I guess our most important message here today is that we will not see the jobs come back in manufacturing or in other sectors in this province's economy if we continue to see increases of this sort. It's not only business, it's Ontarians in general who are at the limit in terms of tax tolerance here. Further increases will simply drive economic activity further underground and, frankly, in business that's where much of the economic activity already resides.

Mr Owen: The committee was kind enough to offer us an opportunity to also touch on the Fair Tax Commission report. When I spoke with the clerk of committee, I offered my thanks at only being asked to speak for 15 minutes on an 1,100-page document. She hadn't seen it at that time.

However, I'd like to touch on two issues which do concern us. One is the corporate minimum tax and the other is sales tax. First, looking at the Fair Tax Commission report, especially at "Constraints on Tax Reform in Ontario," the book I'm referring to is the "Highlights" as much as anything else. I think it's a very, very good synopsis of the actual book itself. It's well written and easy to understand—for him; he's Dr Myers, so it's not me.

Mr Sutherland: The 1,100-page one is easy for him to read?

Mr Owen: It's easy for him, yes. He read it coming up here.

I want to look at constraints on tax reform and, in particular, mobility of real economic activity. The report is quite succinct when it states:

"To the extent that the tax system either influences, or is perceived by governments to influence, location decisions, governments will have a tendency to respond to the increased mobility of key elements of the economy. At a minimum, they may attempt to eliminate their tax systems as a negative factor in location decisions, or they may go further to use concessionary tax regimes to make their tax systems a positive factor in location decisions."

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It's rather interesting, when we hear from the current government about how people are leaving Ontario and going elsewhere.

The report goes further and says:

"For very mobile tax bases, the practical reality is that Ontario's tax rates cannot be significantly different from those of jurisdictions into which the tax base can migrate easily. This constrains the ability of Ontario to raise substantially," and I do recognize that the word "substantially" is there, "more revenue from such tax bases as corporate income."

It says that "special attention must be paid in the design of income tax to the potential for interjurisdictional movement of capital." That's very, very critical. When I looked at this paper, having read that, I did go on to some of the other things that the commission did report on and the obvious title of it was "Fair Taxation." We looked at the actual fair share and we wanted to know what really was a fair share. We believe that the fair share argument should consider the question of who ultimately bears the corporate tax burden.

By suggesting that corporations are not paying their fair share of taxes, is it implied that corporations could be made to pay more in taxes without this having an impact on individuals in terms of product or service prices and employee wages? This ignores the accumulated body, in my opinion, of economic evidence concerning the incidence of taxes.

I have gone back as far as the 1966 Carter commission report on taxation which states:

"All taxes are ultimately borne by people. Taxes can of course be collected not only from people, but also from corporations, trusts and cooperatives. But organizations, as such, cannot bear taxes. It is the people who work for, sell to and buy from or are members, beneficiaries or owners of these legal entities who are made better off or worse off by taxes. While the exact incidence of the corporate income tax is debatable, it is reasonable to conclude that a significant part of it is shifted forward to consumers or backwards to employees, shareholders and suppliers. It is misleading to suggest that increasing corporate taxes is an easy or effective way of increasing the welfare of workers and consumers."

That was rather important, when I did look at what did constitute a fair tax and when I looked further on, it obviously got down and they did make a good report on looking at the issue on the tax itself. They said, "Is Ontario competitive with other jurisdictions?" They came to the conclusion that they are competitive with provinces, with the exception of Quebec and internationally with the United States, although I would draw your attention to page 11 of our submission, where we debate the fact that the statutory rates are similar. Exports, for example, get preferential treatment and they compete with imports in Canada's domestic market. So that's something you have to look very, very closely at.

We believe, and the Fair Tax Commission states it, that it is unlikely that revenue could be raised by increasing corporate income tax rates at this time. They concluded that it would be counterproductive for the province to adopt corporate tax policies that depart significantly from those of other jurisdictions with which Ontario has a close economic relationship. "Ontario," they said, "should maintain effective rates of tax on business at approximately their current levels relative to other jurisdictions."

We have obviously made the observation in our submission that the corporate minimum tax should be in fact repealed.

Looking further at another important area is sales taxes. The report stated that "Ontario's retail sales tax is regressive in that a low-income earner pays a greater proportion of income in this tax than a high-income person." They stated that it represented, in 1991-92, 18% of total revenue in the province of Ontario.

The report did research business extensively and recommended that the GST and retail sales tax be harmonized. According to the report, removing the retail sales tax would result in a 2% to 4% increase in investment in machinery and equipment and also a 1% to 3% increase in investment in non-residential construction.

It also would benefit administration, which small business screams loudly on all the time. As a single administration, it would help reduce the actual burden of Ontario. The revenue department of Ontario says they spent \$40 million last year in the administration of the tax. That would not all be a saving to Ontario.

We also recommend that the harmonization be entered into. One thing that we are very concerned about and we're hearing time and time again, especially with the new Liberal government, is that it's looking for a replacement tax for the GST. They're talking very readily about imposition of a payroll tax. If you think that through, a payroll tax in itself, if we look at it from the magnitude of wanting to raise an additional \$15 billion on payroll, this would mean personal income taxes would go up approximately 20%. With the state of the economy right now, I don't really think that the consumers would like another 20% of personal income taxes, because it would really hurt the economy in this very fragile state that we're in right now.

If the committee has any questions, I'm sure that we'd like to answer them.

Mr Sutherland: Thank you for your presentation. On

your chart here, when you're talking about regulated prices, what are you specifically referring to?

I had a chance to look through your presentation, and I want to go back over in detail the principles you outlined in the back of the budget in terms of questions for government in planning and expenditures, which I think on the surface look very good, very helpful advice. I appreciate your forwarding them.

Dr Myers: Thank you. Maybe I could respond to that question. The regulated prices refer to prices that are regulated by government agencies, such as hydro costs, costs for telecommunications, costs for other utilities.

I have done some separate work on energy costs, again looking across Canada. There, the overall energy price index borne by industry has increased over that period of time by about 32%, just to give you some idea of how that works into the scheme of cost increases.

I think this type of a presentation is important because it certainly points out the differences in pricing in terms of consumer price versus selling price or the price that companies are receiving. That's really what is so important in terms of jobs and investment.

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Finally, responding to the point about expenditure reduction, we're certainly aware that governments are having to face a very critical deficit situation and that it can't be done alone simply through cuts in expenditure. In fact, it's worrying when we hear so much about cutting expenditure, because industry, having gone through this experience for the last four or five years, knows that you can cut and cut and finally you cut into the bone of your operation and you fail.

That's what we want to make sure—and another message to deliver is, it's so important today to set the priorities, to know what the customer needs there. The principles that are outlined in the back are some of the principles that I think industry has found very useful in its cost-cutting exercises.

Mr Owen: There is one thing which is in the paper. The Canadian Manufacturers' Association, together with the Treasury Board of Canada and the Department of Industry of the federal government, has been working in what is a business impact test. It's to be unveiled next Friday, February 4, in Ottawa.

Dr Myers has had a great involvement in this. It's designed basically to reduce regulatory burdens and make sure that the burdens themselves are the same; in other words, Ontario is not looking at it a different way from the federal government or even the municipalities are not looking at it a different way from the federal government and the provincial governments. It's designed basically to help both government and the users or the compliers with the regulatory reform.

I have been speaking to Mr Jamison about this, and I feel sure, if the committee would like, that the Canadian Manufacturers' Association would like to demonstrate this to the committee for your understanding of this at the same time.

Mrs Haslam: Mr Chair, before you leave that, may I say that this was the point that I was going to ask you

about, where now the business impact test was. If that offer could be taken up, since it's being done next week, if we could have some information forwarded to the clerk for distribution to the committee members, I think we would really appreciate that.

Mr Phillips: I appreciate the thoughtful presentation. I believe you are the engine that drives the economy. I'm very much supportive of that. I also agree with your observation. I don't think your sector is going to see a lot of job creation.

I watched the manufacturing jobs, even in kind of the boom times, and the jobs never went up, even though the output did, just because of investment. I think the output will continue to grow, but I hope we can just maintain the jobs in manufacturing.

On the corporate minimum tax: I thought the Fair Tax Commission did a pretty good job in pointing out why corporations don't pay taxes. It is exclusively for two reasons: One is the loss carry-forward; the second is corporations taking advantage of government-initiated tax expenditure programs.

What the corporate minimum tax is, in my opinion, is about a 2% clawback on government programs. So we're going to put 13,000 corporations through all the hassle of filing it to clawback government incentive programs. I sympathize with you. I think that the challenge will be psychological. I think for the government, the corporate minimum tax is politically essential for them and I wouldn't count on any backing off on it.

My question, though, to the group is almost a warning for us as well. We've had at least two business groups come in and say: "Get rid of all of these handouts to business. We don't want any more handouts to business. We don't need a helping hand." I'm not sure they've really thought through what they mean by that because much of the "handouts to business" are the things you've talked about in here as essential to the manufacturing sector: capital cost allowances, R&D incentives and what not.

I would just ask the question but also alert the manufacturing group that I can see the tax expenditure area being an area that governments at every level will attack, because it's a way to "raise more revenue" without "raising taxes." Is there any advice you can give to us on the impact of that, and you've given us a couple of examples today, anything you could do right now to give us more evidence that this is a worthwhile expenditure of "tax expenditures"?

Mr David Brown: I can talk as a manufacturer. If the government were to reduce or withdraw tax incentives to industry, obviously that funding has to come from somewhere else. It's either that or the business, either the investment or the research or whatever is being done, is not going to take place.

We have to recognize, as an Ontario company, and we are probably one of the largest companies in our industry and certainly the largest in Ontario, I can tell you that we have to compete internationally within our own corporation for funding and for programs which ultimately will be to the benefit of Ontario and Canada. Canadian

companies and Ontario companies have to compete in a global marketplace. No longer are we confined by these restrictions where we say, "Well, we're Canadian and all we're going to do is satisfy the Canadian market."

Multinational companies, for one group, certainly don't take that attitude. They're looking at it on a global basis right now. The environment in which those investments are made and in which the activity is going to take place is that where corporations feel they're going to gain the best return on their investment. After all, we still have a return on investment to our shareholders.

There's a cycle here that has to be completed. What you've got to do is to stimulate the spending here so that in turn there's a demand for the goods which we produce, which then in turn will produce more income and as a result of that more tax revenues to the government, because you have higher employment and higher profitability in terms of throughput of manufacture.

As we said in the report, one of the key reasons or the key aspects of the success of the manufacturing sector has been through improvements in productivity, not through increases in output in terms of the number of units of product sold. We have to remain competitive.

Mr Turnbull: Can you tell me what would be best, for the government to simply get rid of any incentives that corporations have by way of giving special allowances for them to do certain things? For example, they're called tax loopholes when the government takes them away and they're called incentives when they're put in place. That's real political doublespeak.

What would be better, to get rid of all of those and reduce the overall rate of tax so that we wouldn't distort the market and businesses would make their own decisions as to whether they're going to invest, or is the present regime, albeit you may have difficulties with it, is the concept better now?

Mr David Brown: I think that would have to be dependent on where the government felt it really needed

the stimulus in the economy. For example, if you're to talk about R&D incentives and tax credits and so on associated with that, you have to realize that for those incentives you're going to gain back spending in a high-tech area, which as far as manufacturing and the economy are concerned, is going to be one of the real key drivers of the future. What we really want are those industries, and to develop the spending in those areas which is going to produce the greatest return.

Mr Turnbull: That would require that governments choose the sectors where they believe the growth is going to be.

Mr David Brown: That's right.

Mr Turnbull: And stimulate those through R&D grants and tax concessions.

Mr David Brown: Right. It has to be done on a selective basis.

Dr Myers: I think as well, again perhaps going to what we were speaking about before in selecting priorities, know what the effect of cuts will be, if you're going to make cuts, and know how to construct an incentive that is actually effective, if that's what you're doing as well.

There are many incentives in place today that simply don't work because you have to be profitable to take advantage of them, and many companies are simply not profitable today. In a way, it's looking at what works and what doesn't work. I think when we do talk about cuts, let's realize—perhaps from an economist this may sound like heresy, but we're not talking about abstract equilibria models here where everything goes back to a level playing field, because there is no level playing field there today. Everybody talks about it. Our competitors are doing everything they can to tilt the playing field in their favour and we have to play that game.

The Chair: I thank the Canadian Manufacturers' Association for its presentation before the committee.

The committee adjourned at 1720.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

***Chair / Président:** Johnson, Paul R. (Prince Edward-Lennox-South Hastings/
Prince Edward-Lennox-Hastings-Sud ND)

Vice-Chair / Vice-Président: Wiseman, Jim (Durham West/-Ouest ND)

*Caplan, Elinor (Oriole L)

*Carr, Gary (Oakville South/-Sud PC)

Cousens, W. Donald (Markham PC)

*Haslam, Karen (Perth ND)

*Jamison, Norm (Norfolk ND)

Kwinter, Monte (Wilson Heights L)

*Lessard, Wayne (Windsor-Walkerville ND)

*Mathysen, Irene (Middlesex ND)

*Phillips, Gerry (Scarborough-Agincourt L)

*Sutherland, Kimble (Oxford ND)

**In attendance / présents*

Substitutions present/ Membres remplaçants présents:

Crozier, Bruce (Essex South/-Sud L) for Mr Kwinter

Rizzo, Tony (Oakwood ND) for Mrs Mathysen

Turnbull, David (York Mills PC) for Mr Cousens

Clerk pro tem / Greffière par intérim: Bryce, Donna

Staff / Personnel:

Campbell, Elaine, research officer, Legislative Research Service

Israel, Edward, research officer, Legislative Research Service

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